

WORLD NEWS

Tebbit to keep job for a week

Tory Party chairman Norman Tebbit is to remain in his post until the end of next week, as the search for his successor goes on.

He wanted to leave the job yesterday, to take up various business directorships next week, but Mrs Thatcher persuaded him to stay longer.

She had wanted Trade and Industry Secretary Lord Young to take the job, but he withdrew his name after other senior Tories said his appointment might lead to conflicts of interest.

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Two jailed for life

Assassin Patrick Timlin was given three life sentences at the Old Bailey for murdering a Sikh leader and trying to kill two others. Gurmial Singh Berra, who hired him, was given two.

Jury trial pledge by King

The Government wishes to return to full jury trials in Northern Ireland as soon as possible, Northern Ireland Secretary Tom King said. Page 4

Cuban Mig shot down

Cuba said one of its Mig-21 fighters was shot down in Angola and two crew captured, the first time Havana has made such an admission.

'Spy handed back'

A Soviet army officer was caught spying on the US military in West Berlin on Wednesday but after being detained he was handed back to Soviet officials, the US said.

Iran attacks Baghdad

Tension rose in the Gulf again as an Iranian long-range rocket hit Baghdad, in retaliation for Iraqi air raids. Page 3

Licensing reform bill

The Government published a bill to reform licensing laws in England and Wales, allowing public houses to open 12 hours a day. Page 4

Evening News closed

Associated Newspapers closed the Evening News for the second time, restoring the London Evening Standard's monopoly in the capital.

'Security men lie'

Officials of Shin Bet, Israel's internal security service, have routinely lied during trials of Palestinian suspects for 16 years, an inquiry found. Page 3

Sri Lanka plan dropped

Sri Lankan President Jayawardene abandoned a plan for an interim council to run the northern and eastern provinces before they merge into a Tamil province. Page 3

Woody Herman dies

Band leader and clarinet player Woody Herman, 74, died of a heart attack in Los Angeles.

England go through

England, 219 for two, beat Sri Lanka, 218 for seven, in Pune, and will play Australia or India in the World Cup semifinals.

Mansell crashes

British Nigel Mansell hurt his back in a crash during practice for Sunday's Japanese Grand Prix, jeopardising his hopes of winning the championship.

Dressed to kill

Philippines President Corason Aquino said women political leaders faced problems men did not, such as whether to put on make-up during coups.

MARKETS

DOLLAR

New York lunchtime:
DM 1.7255
FF 5.8885
SF 1.429
Y158.2
London:
DM 1.728 (same)
FF 5.8725 (5.825)
SF 1.4285 (1.4355)
Y158.35 (158.3)
Dollar index 98.5 (98.3)
Tokyo close Y138.55

US LUNCHTIME RATES

Fed Funds 5 1/8%
3-month Treasury Bills:
yield: 9.54%
Long Bond: 9.2%
yield: 9.05%

GOLD

New York Comex Dec latest \$470.3
London: \$467.75 (469.5)

BUSINESS SUMMARY

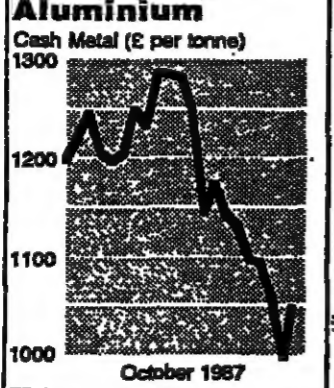
Berisford adjusts line on ABF bid

S&W BERISFORD directors are no longer recommending that shareholders of the diversified sugar producer reject a \$797m cash takeover offer by milling and baking group Associated British Foods.

The move to give no official guidance to shareholders on the bid was taken because of stock market conditions. Berisford's current share price - at 37 1/2p - compares with a 400p offer from ABF. Back Page: Details, Page 8

SUN ALLIANCE, Britain's biggest household insurer, expects claims worth \$64m from homeowners and motorists as a result of the recent hurricane. Back Page

ALUMINIUM prices rallied from 1000 to 1100 in the London Metal Exchange but were trimmed back



in late trading as sterling strengthened against the dollar. Cash standard metal closed up 251.50 at £1,049 a tonne. Page 18

PARIS CLUB of Western creditor nations reached a preliminary accord with Poland to alleviate repayments due before the end of next year on much of the country's \$35bn (230.5bn) foreign debt.

OPEC said petroleum exports fell 41.5 per cent in value to \$77.1bn (\$44.8bn) last year as the world oil price fell.

BANK SAVINGS: The Japanese have an average bank savings of \$27,303 (\$15,874) per person - double last year's \$13,135 figure and almost three times the average \$9,733 held by an American, said the International Savings Bank Institute.

JAPAN'S trade surplus in goods and services fell to \$8.38bn (\$4.87bn) from \$9.24bn last month, its fifth consecutive year-on-year drop.

TOSHIBA MACHINE, machine tool outfit of Japan's Toshiba electronics group, reported an interim pre-tax loss of ¥38m (\$247,000) against profits of ¥1.3bn, with exports hit dramatically following its illegal export of goods to the Soviet Union. Page 18

MITSUBISHI Heavy Industries, Japan's largest heavy engineering group, produced interim pre-tax profits of ¥15.3bn (\$94.2m) against ¥3.1bn. Page 18

BRITISH AIRWAYS intends to defend itself "vigorously" against a lawsuit being brought by American Airlines alleging abuse of its position in the UK computerised reservations systems market. Page 4

PORTSMOUTH and Sunderland Newspapers group, UK printer and publisher, saw interim pre-tax profits rise from £948,000 to £2.49m. Page 8

GLOBE INVESTMENT Trust, Britain's biggest investment trust, increased interim attributable profits 12.5 per cent to £12.4m. Page 8

KEP GROUP, precision engineering group, bought Minnesota-based fire detection company Detector Electronics Corporation for \$21m (\$12m) cash. Page 8

STERLING
New York lunchtime \$1.724
London: \$1.722 (1.720)
DM 2.175 (2.170)
FF 10.1125 (10.0225)
SF 2.4825 (2.4675)
Y238.25 (237.75)
Sterling index 74.6 (same)

LONDON MONEY
3-month interbank
closing rate 9 1/8% (9 1/4%)

NORTH SEA OIL
Brent 15-day Nov (August)
\$18.875 (\$18.825)

STOCK INDICES
FT Ord 1,380.9 (-57.5)
FT-A All Share 887.33 (+3.7%)
FT-SE 100 1,749.6 (+97.8)
FT-100 gilt yield index:
High coupon: 9.3 (9.18)
New York
DJ Ind Av 1,998.53 (+58.2)
Tokyo
Nikkei 22,765.04 (+731.15)

Gold price changes yesterday: Back Page

US and Soviet Union 'to sign missiles pact on December 7'

By STEWART FLEMING, US EDITOR, IN WASHINGTON

A BUOYANT President Ronald Reagan announced yesterday that he and Mr Mikhail Gorbachev, the Soviet leader, would hold a summit meeting in Washington on December 7 at which the US and the Soviet Union would sign an accord eliminating intermediate range nuclear missiles.

Appearing before the White House press corps with Mr Edward Shevardnadze, the Soviet Foreign Minister, at his side, Mr Reagan said that Mr Gorbachev had written him a letter which was "forthcoming and statesmanlike in tone".

Mr Reagan also expressed optimism about the prospects for a Moscow summit in 1988 and the possibility that an agreement might be reached on cutting by half the long range or strategic nuclear weapons, which are mutually much more significant.

Asked whether Moscow had shifted its position and had dropped its insistence that the 50 per cent cuts in strategic missiles should be linked to agreement by the US to curb its Strategic Defence Initiative (Star Wars), Mr Reagan hedged. He said that Moscow was not linking the two issues "in the sense of making one a condition for the other".

Mr Reagan was asked whether the US had shifted its stance

on when SDI might begin to be deployed and he agreed there was flexibility in the US position on SDI.

Although Mr Reagan's brief answers to questions left several issues unclear, there was no mistaking the upbeat tone of his replies at the end of several days during which Washington has been waiting anxiously to see whether the Soviet Union would change course.

Last week Mr Gorbachev told Mr George Shultz, the US Secretary of State, at a meeting in Moscow, that in spite of earlier Soviet assurances, he was not ready to set a summit date.

Abruptly on Wednesday of this week, however, Moscow announced that Mr Shevardnadze would visit Washington - a move which raised speculation that there had been a change of heart in Moscow. It remains unclear, however, what might have brought about the shift.

Officials in Washington, who have been battered by one disappointment after another in the past three weeks, were clearly jubilant at the decision.

At one point Mr Reagan was asked the significance of holding a summit on December 7, the day on which Americans commemorate the Japanese attack on Pearl Harbor which

took the US into the Second World War.

In a moment of inspired public relations Mr Reagan replied: "Do you know I hadn't even thought about that until we were sitting in the Cabinet Room in this recent meeting? And I thought to myself, 'Wouldn't it be wonderful if Pearl Harbor day would become superseded by the day that we began the path to peace and safety in this world through disarmament?'"

Announcing the agreement on a summit, Mr Reagan said that Mr Gorbachev "has accepted my invitation to come to Washington for a summit, beginning on December 7. At that time we expect to sign an agreement eliminating the entire class of US and Soviet intermediate range nuclear forces."

He made it clear, in response to questions, that some details of the INF accord, dealing in particular with verification, had not yet been settled.

Mr Reagan also hinted strongly that the Washington summit would be a brief one rather than the extended tour around the United States for which the US has been pressing. He said Mr Gorbachev had scheduling problems which would preclude a lengthy stay.

BCal in discussions with potential foreign partners

By CLAY HARRIS

BRITISH CALEDONIAN, Britain's second largest airline, is discussing alternative rescue schemes with several continental European and North American carriers if its agreed takeover by British Airways is blocked.

BCal is determined not to be caught out if the UK Government forbids the takeover or attaches conditions unacceptable to either partner after the Monopolies and Mergers Commission submits its report next week.

Its talks with three or four other potential partners have not yet reached the point of discussing financial terms, although BCal in all cases would retain a separate identity. The airline last night also announced the sale of its 11 four-star Copthorne hotels for an undisclosed sum, believed to be at least £20m, to London Tara Hotel, subsidiary of Aer Lingus, the Irish airline. BCal said BA did not object to the transaction.

Announcing the hotels disposal, Sir Adam Thomson, BCal chairman, said BCal was "dedicated to seeing through the evolution of its airline interests, but it is not in a position to carry on if the takeover is blocked."

He said: "Should the takeover be blocked, cash raised from the sale of the hotel operation will assist the fulfilment of alternative strategies for the airline."

BCal made clear last night "we're not in hard discussions with anybody." If the BA merger failed to take off, however, it said: "We would have to move pretty fast. A £20m loss on more than 100 hotels is a significant deficit of £13.3m in its 1986-87 financial year."

The proposed merger with BA has been criticised by smaller independent UK airlines concerned about the effects on competition, but supported by

unions at BA and BCal.

The BA share offer was worth £237m when it was launched in July, but the stock market crash has reduced its value to £157m. BCal's offer of £150m in shares has been pulled out of the offer since the crash, there has been no indication that BA is unhappy with the terms it is offering.

The Copthorne disposal was arranged by Goldman Sachs, the US investment bank which is BCal's sole financial adviser. BCal wholly owns the Copthorne hotels at Gatwick and Birmingham - holds equity stakes in hotels in Brussels, Aberdeen, Glasgow and Manchester, and operates the rest - in Zurich, Garmisch, Barbados, the Netherlands Antilles and Plymouth - on management contracts.

The 2,000 rooms will raise the total operated by the Aer Lingus subsidiary to 14,700 in Ireland, Britain, the US, France and Spain.

Strict ship safety law planned

By KEVIN BROWN, TRANSPORT CORRESPONDENT

THE GOVERNMENT is to introduce legislation allowing unlimited fines for shipping companies convicted of neglecting safety regulations. Both managers and ship crews would face up to two years in prison.

The Merchant Shipping Bill, published yesterday, provides, clear grounds for prosecution where companies or individuals can be shown not to have taken "all reasonable steps" to make sure ships are operated safely.

The proposals follow controversy over responsibility for the loss of the Townsend Thoresen vehicle ferry Herald of Free Enterprise, which capsized off Zeebrugge seven months ago with the loss of 193 lives.

A public inquiry chaired by Mr Justice Sheen concluded that Townsend's "lapses" was a contributory cause of the accident, but ruled that no criminal offence had been committed.

However, there has been pressure for charges of manslaughter to be brought against Peninsula and Oriental Steam Navigation, which acquired Townsend shortly before the accident.

Mr Allan Green, the Director of Public Prosecutions, is considering what action to take following inquest verdicts of unlawful killing on 157 of the victims.

Mr Paul Channon, the Transport Secretary, said the bill would provide an effective legal framework for maritime safety which would place strict duties on both shipowners and seamen.

"We are determined that no effort should be spared in making sure that a disaster like the one which struck the Herald of Free Enterprise should never happen again," he said.

Mr Channon said spot checks on ferries were being stepped up, and safety features such as bridge warning lights, closed-circuit television monitoring and emergency lighting would become mandatory next year.

He said the Government was pressing other European Governments to introduce similar requirements, and warned that some safety measures would be introduced unilaterally if agreement could not be reached.

"I am determined that ferries operating out of British ports operate to the highest possible safety standards, be they British or foreign," he said.

The Government has already announced proposals to make it a specific offence to allow a

ship to sail with its sea doors open. This was identified by the Sheen inquiry as the immediate cause of the Herald accident.

Ministers have rejected calls for enforcement of safety regulations to be removed from the Transport Department, which was accused of the industry of maintaining a "cozy" relationship with the ferry companies.

The bill provides, however, for the establishment of a Marine Accident Investigation Branch, separate from maritime units and reporting direct to Mr Channon.

The bill also proposes major changes in the law governing the shipping registers maintained by dependent territories, all of which are technically part of the UK register.

Finally, the bill tightens the law on registration of fishing vessels in the UK. This is intended to end registration of foreign vessels which subsequently take catches allocated to the UK under the European Community's Common Fisheries Policy.

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Small investors in buying spree for BP shares

By RICHARD TOMKINS

SMALL INVESTORS joined in a buying spree for British Petroleum's shares yesterday which took the market price well clear of the 70p floor level set by the Bank of England in an emergency support operation the previous night.

However, the closing price of 85p was still far short of the 120p at which the partly-paid stock had been sold in the world's biggest-ever equity offering.

The 70p price at which the Bank of England promised to buy BP's partly-paid shares had been carefully chosen as the theoretical value of the stock at the previous night's close.

However, the Bank calculated that many investors would be prepared to pay more for the shares because of the very high dividend yield they offered and because of the potential for large percentage gains in capital value.

Helped by a fair wind from the rising London stock market, the shares opened at 85p and hovered between 80p and 90p before easing back slightly to close at 85p. Volume in London was around 130m, making it easily the most actively traded stock.

Dealers suggested that some of the underwriters, particular-

ly in the US, were taking the opportunity of the relatively buoyant price to unload stock and cut their losses.

They also reported large numbers of small lots, suggesting that small investors who had passed up the opportunity of buying shares in an equity offering doomed to failure had gone bargain-hunting for the shares in the after-market.

The special dealing arrangements set up by the Government

Markets in turmoil, Page 2; Out of the valley of death, and Editorial comment, Page 6; World Stock Markets, Page 11; Markets recover, and Lex, Back Page; Week in the markets, Weekend Section II

apply to buyers as well as sellers. However, the National Westminster Bank, lead receiving bank to the issue, said yesterday it had withdrawn its on-the-spot dealing service for small investors because of lack of demand.

N.M. Rothschild, the merchant bank which sponsored the issue on behalf of the Government, yesterday released figures showing the extent of

Continued on Back Page

World stock markets

NEW YORK: Wall Street rallied for the second day running with the Dow Jones Industrial Average near 2,800 for most of the day and closing up 55.2 at 2,803.53.

TOKYO: Wall Street's overnight rally and a firming of the dollar sparked the third-biggest single-day price rise. The Nikkei Average added 731.15 points to close at 22,765.04.

LONDON: The Government's safety net under the BP issue helped sentiment to fuel the rally on Wall Street. The FT-SE 100 closed up 67.5 at 1,749.6.

SYDNEY: Concern over falling bullion prices and weakness in the Australian dollar blunted an early rally. All-ordinaries index closed up 8.1 points at 1,292.1.

SINGAPORE: The stock market staged its first solid rally of the week. The Straits Times Industrial Index closed up 6.13 per cent at 326.6 points.

TORONTO: The strength on Wall Street spilled across the border and helped busy Canadian share prices. The composite index closed up 144.94 at 5,619.27.

HONG KONG: Institutions sold into an early rally and trimmed gains on the Hang Seng index to

35.61 points which closed at 2,246.11.

FRANKFURT: Domestic buyers came back to the market. The mid-session Commerzbank Index rose 26.9 points to 1,524.0.

ZURICH: A broad-based rally left the Swiss Bank Industrial Index up 25.1 points at 538.18.

MADRID: Shares moved well ahead and the general index rose 10.33 points to 2,224.8.

MILAN: Prices moved solidly ahead with the Milan Index up 4.58 per cent at 754.

JOHANNESBURG: Share prices mixed with the all-gold index up seven points at 1,551.

BRUSSELS: A rally pushed the Cash Market Index up about 6 per cent to 2,955.46.

OSLO: Share prices recovered most of Thursday's steep decline and closed up 15.32 points at 362.15 on the all-share index.

STOCKHOLM: Prices rebounded and the all-share index closed 204.5 points up at 2,585.2.

AMSTERDAM: Prices fluctuated with the all-share index closing 4.1 points up at 73.4.

IMPORTANT ANNOUNCEMENT TO INVESTORS

WARDLEY BRITISH WINNERS TRUST

Investing in Britain's Best Managed Companies

The New Wardley British Winners Trust, which was launched on 9th October 1987, had made no investments before Monday, 26th October 1987. This means that the opening portfolio is being constructed with shares which have been bought at prices after the recent major falls in the UK stockmarket.

In Wardley's view, the opening portfolio will represent excellent fundamental value and we remain firmly optimistic over the fund's long term future due to the underlying strength of the British Economy and the investment philosophy of the fund to invest in Britain's best managed companies.

For details of the fixed price and bonus offers which end on November 4th and 11th respectively, please call 01-382 9927 today or write to British Winners, Wardley Unit Trust Managers Limited, 99 Bishopsgate, London EC2P 2LA.

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FINANCIAL MARKETS IN TURMOIL

Bell Group may launch bid in hunt for cash

By Bruce Jacques in Sydney

MR ROBERT Holmes, a Court, the Perth entrepreneur, was thought yesterday to be considering making a takeover bid in Australia in the hope of restoring cash flow to his corporate empire, the market valuation of which has been salvaged in the last fortnight.

Shares in Bell Group, his flagship, have been cut from a peak of \$10.60 to close yesterday in Sydney at \$2.90 while those in Bell Resources, his energy and mining investment vehicle, have been slashed from their high of \$16.40 to \$1.50 in the same period.

Analysts believe that the fall in the value of his shareholdings - mainly the near-30 per cent which Bell Resources holds in Broken Hill Proprietary, Australia's biggest company - means that his shareholdings funds may have been wiped out.

The market is worried that debt servicing bills could outweigh cash flow by \$500m (\$200m) a year and in the absence of share trading profits, which will be harder to earn in a bear market, the earnings outlook is bleak. This has led to speculation that Mr Holmes's Court will be forced to make a major acquisition giving him access to cash flow.

The most likely candidate being identified in the market yesterday was Pioneer Concrete Services, the building products and resources group. Speculation grew that Bell Resources would launch a bid worth at least \$1.7bn for Pioneer, in which Bell already holds just under 17 per cent.

It bought this stake from Mr Larry Adler's FAI Insurance in August at \$4 a share. All parties were expected yesterday and Pioneer shares were somewhat to the speculation, recovering 20 cents to \$2.90.

The rumours were quite specific, with analysts predicting that a bid for Pioneer would come in the form of a convertible bond transferable into shares in BHP. Pioneer would fit the bill well, possessing a number of large assets which could be sold.

Analysts have calculated that Pioneer's current capitalisation of about \$1.7bn is as much as \$1bn below the saleable value of its assets.

The fall of the US dollar has shaken Japanese confidence, Stefan Wagstyl writes from Tokyo
Doubts emerge over commitment to Louvre Accord

JAPANESE investors' confidence in the US dollar has been severely shaken by the American currency's decline this week. They have serious doubts about whether leading industrialised countries in the Group of Seven remain as firmly committed as they claim to the Louvre Accord - the agreement to maintain stable exchange rates.

An analyst at Nomura Securities, Tokyo's biggest stockbroker, said yesterday that investors "had concluded that the agreement has already collapsed."

Investors are extremely wary about predicting an immediate heavy fall in the dollar - say, below \$130 - in the face of massive action by central banks this week to support the US currency above \$115. In Tokyo the dollar closed higher at ¥185.5.

Mr Susumu Takemoto, senior financial economist at the Industrial Bank of Japan, says: "Central banks have successfully secured investors away from speculating against them. There is an equilibrium of terror."

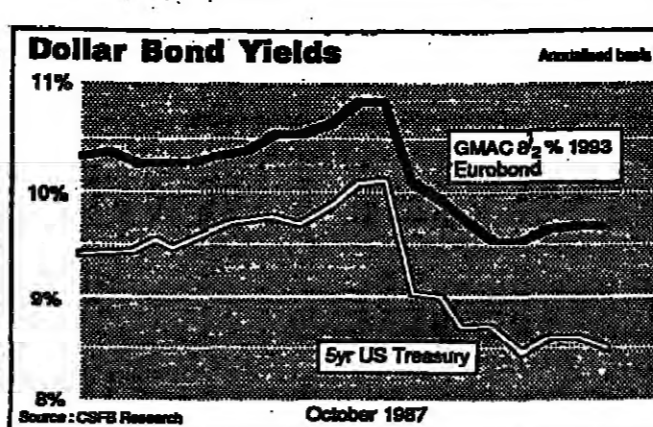
Nevertheless, in Tokyo the belief is widespread that the Louvre Accord is now being interpreted by central banks as

an agreement to slow the dollar's slide rather than to stop it. Nomura Investment Research Institute, a Nomura affiliate, believes that the dollar will now trade in a range of ¥135 to ¥140, instead of the ¥140 to ¥150 range it has traded in for most of the past year. Daiwa Securities Research Institute, a subsidiary of the second largest stockbroker, forecasts an average rate of ¥137 for next year.

The critical test of Japanese investors' faith in the US dollar will come next week when the US Treasury auctions \$28bn of bonds in the quarterly refinancing of its debt. Japanese have typically bought a third of the issue in the recent past - if they buy significantly less it will be proof that they do not trust the greenback.

Yamaichi Investment Trust Management, subsidiary of Yamaichi Securities, the stockbroker, was quoted yesterday as saying that it had "no intention to bid at the moment". But Sumitomo Trust Bank said it would bid.

The Japanese Ministry of Finance and the Bank of Japan are at one in their insistence that the Louvre Accord, made



Source: CFS Research October 1987

last February, still stands. They say there are no plans to call a meeting of G7 finance ministers. Mr Kijichi Miyazawa, the Finance Minister, said yesterday that the accord had not been breached by the dollar's fall below ¥140. The accord did not contain a pledge to defend a specific floor.

In an interview yesterday, a senior Bank of Japan official said that the Louvre Accord committed governments to

maintain exchange rates at "current levels". "I don't call this week's decline a very big departure from current levels. We realise that the market has a different view - (but) the idea of current levels had some flexibility from the start and still has," said the official.

He said the Bank of Japan was now carrying out a study of the impact of the stock market turmoil on real economies. He hinted that Japan's view of the accord might be revised in the

light of the study - but he said it was too early to say in what direction, if any, policy might change. The difficulty for the Bank of Japan and other central banks is that of flexibility immediately starts investors thinking that resolve is weakening and the dollar will fall.

Moreover, one indirect effect of the stock market plunge has been the dollar. In rushing to sell Japanese stocks foreign investors have repatriated funds and sold at least \$10bn of yen. But foreigners' sales of Japanese equities slowed rapidly towards the end of this week. So central banks intervened buying an estimated \$3bn of dollars.

In addition, the pressure on the dollar has been lifted slightly by the Bank of Japan's moves to ease domestic credit supply. The bank, which had threatened to tighten credit, has now done the opposite, buying ¥500bn of commercial paper in the last week. This has helped bring down short-term interest rates by about half a percentage point. Long-term rates on government bonds have fallen far-

ther still - from more than 6 per cent to about 4.5 per cent on the benchmark 10-year issue bond.

The senior central bank official interviewed yesterday saw no contradiction between a short-term policy of easing rates to help the market through its current turmoil and a long-term policy of controlling money supply to prevent any resurgence of inflation.

The official agreed that central banks were in effect trying to win time while policy changes in the US and elsewhere took effect. He echoed the views of Mr Miyazawa and others that US measures to deal with the external and budget deficits were vital.

The Japanese Government's view is that moves in Washington to discuss deficit-cutting stops mean no meeting of the G7 is necessary for the moment.

There is hope at the Bank of Japan that enough has been done this week to make sure enough Japanese investors take part in next week's US bond auction. The official said: "We have tried to stabilise the market. There is a very good chance that investors will be there."

US official warns of worsening trade deficit

By Our Foreign Staff

THE US trade deficit is unlikely to improve this year and may worsen, Mr Robert Ortner, Under Secretary of Commerce for Economic Affairs said yesterday.

But there were no indications of an imminent US recession and he anticipated a deficit of \$155bn to \$160bn, compared to \$158bn last year.

The rising US trade deficit and the associated levels of US foreign borrowing have been at the root of financial markets' fears. Despite the depreciation of the US dollar, the deficit has stubbornly refused to reverse its trend. Economists fear that if the deficit is to fall, the dollar may have to fall further.

In testimony to the House-Senate Joint Economic Committee, Mr Ortner said it could be four to five years before the deficit was eliminated, though he anticipated monthly deficits slowing towards the end of the year. He warned that a move towards greater trade restrictions would cut off the US rapid growth in exports.

Mr Ortner played down the effects of the US foreign debt on the US economy, which, he said, "shows resiliency under severe pressure". Asked whether he was concerned about the growth of the US foreign debt, he said: "Whether it will destroy our economy, I don't think that's the case at all."

Others at the hearings were more pessimistic. Stephen Marra, senior fellow of the Institute for International Economics, told Congress that "once the shock waves settle, the markets are going to start worrying about the US trade deficit."

He said that the US trade deficit was a "major problem" and that the US was likely to see renewed downward pressure on the dollar and upward pressure on US interest rates.

Mr Ortner went on to warn that it may be too late for monetary policy to avoid an accumulation of weaknesses leading to a recession.

City acclaim for BP safety net

If all goes to plan the Bank of England won't have to buy any BP shares, writes Richard Tomkins

THE Bank of England's commitment to underwrite the share price of British Petroleum's newly issued shares recalls the proclamation to be found on every English bank note: "I promise to pay the bearer on demand the sum of..."

In this case, however, the figure is not a number of pounds, but the 70p it is offering to pay for every partly-paid BP share which cannot find another home at a higher price.

The Bank did not pick up any of the partly-paid shares under

the terms of this offer when trading began yesterday afternoon. Quite apart from the fact that the shares were trading at a figure considerably higher than 70p in the market, the arrangement is not in place yet and is to come into operation by the end of next week.

Details of the plan have therefore yet to emerge, but it is in essence simple enough. The

Bank has undertaken to buy the partly-paid shares at 70p not just from those who bought the stock in the BP share offer or took it up as part of their underwriting commitments, but also from anyone who acquires it in the after-market.

Dealings are expected to take place through normal stock market channels, and it is highly unlikely that the Bank would deal direct with the public. In the event that its offer is taken up, subsequent disposals would not be made for at least six months after the offer closes, and in a way which would not upset the market. The assumption is that the stock would be placed with institutional investors at the prevailing market price.

Theoretically, the arrangement leaves the Bank highly exposed to another tumble in the stock market, for if BP price

were to head below the 70p mark, it could stand to pick up the whole of the 2.2bn partly-paid shares in issue.

Yet it is hardly likely that it will be called on to do so. The very fact that it is standing by as a buyer of last resort ensures that investors will be happy to hold on to the stock and weather a downturn in the market. The catch could come if a stock market downturn were to persist up to and beyond the point where the Bank's commitment expires. The plan is for the commitment to last for between one month and two, with the expiry date likely to be announced at the end of the first month.

The hope is clearly that by this time the stock market will have steadied enough for the safety net to prove unnecessary. If it has not, there would be nothing to prevent the Bank an-

nouncing a further extension to its scheme.

The plan won warm acclaim in the City yesterday. Many stock market analysts thought it would probably have proved unnecessary in any event because of the partly-paid shares were expected to open considerably above the 70p floor price. But they agreed that it was useful in removing any possibility of a wave of panic selling, especially by the underwriters with whom almost all the stock had been dumped.

If the Bank of England does pick up any shares in BP as a result of the scheme, it will not be for the first time. On January 23 1976, it acquired a stake of no fewer than 70m BP shares as a result of its rescue mission for Buxton Oil. The Bank has little desire to repeat the experience, and if all goes according to plan, it will not be called upon to do so.

London market steadier after two-day recovery

By TERRY BYLAND

THE LONDON stock market looked a much brighter place yesterday after share prices staged a further recovery - the first two consecutive days of improvement since the bottom fell out of the world markets on Black Monday, October 12.

The City was too shaken by the events of the past fortnight to celebrate the rally, which still leaves the market some 2.5 per cent down on the week. But the occasional glass should be raised to the recovery, which has been helped by the UK Chancellor of the Exchequer, following the successful launch of the £7.2bn British Petroleum share sale.

The BP new shares easily topped the list of the active stocks list, although only a small proportion of the 2.2bn shares on issue changed hands. The closing price was more than 10p above the underwritten price and was supported by the major British and foreign securities houses.

The London market "behaved extremely well," said a trader at a large US bank. Gold futures

and gold shares fell, indicating a return to investment fundamentals, away from last week's fear-driven activity.

However, market turnover was disappointing, and international stocks closed off the top as some analysts expressed nervousness over prospects for sterling as an investment currency.

British Government bonds gave back some of their recent gains as the UK funds raised cash to meet the BP trading house's hopes of another cut in UK base rates subsided.

The dollar's inability to hold its initial improvement disappointed London.

While the mood of the UK markets has steadied over the past two trading sessions, UK traders remain very nervous. "The avoidance of recession (in the US) next year requires that the US Federal Reserve is able to bring down interest rates without unduly undermining the dollar," clients of a major UK trading house were warned yesterday.

OVERSEAS NEWS

Politburo row reveals tensions on reform

By PATRICK COCKBURN in MOSCOW

A PUBLIC row between Mr Boris Yeltsin and Mr Yegor Ligachev, two of the best-known members of the Soviet Politburo, has highlighted the tensions and frustrations felt among Soviet leaders at the slow pace of political and economic reform.

Mr Yeltsin, radical leader of the Moscow Communist Party and a non-voting member of the politburo, sent to have told the party Central Committee meeting on October 21 that perestroika (restructuring) in the capital was being frustrated by covert opposition in the bureaucracy.

He was then criticised by Mr Ligachev, number two to Mr Mikhail Gorbachev, the Soviet party leader, who told the Politburo that Mr Yeltsin's difficulties in Moscow were of his own making.

In spite of unconfirmed reports that Mr Yeltsin had offered to resign, his staff said yesterday he was still at work in his office. Even if he were to step down, this would be unlikely until after the celebrations next month of the 70th anniversary of the Bolshevik revolution.



Boris Yeltsin: reform only cosmetic

By breaking ranks semi-publicly (details of what was said at the meeting are sketchy because no full report was published), Mr Yeltsin gave vent to

policy differences among the Soviet leaders. These are not, as they are sometimes described, between radicals and conservatives in the sense of people who want to maintain the status quo or those who want perestroika without excesses.

The differences between Politburo reformers, principally over political and cultural rather than economic restructuring, have become more acute as members dating from the Brezhnev era have dropped out. Eight of 13 members of the full Politburo, and four of six non-voting members, have been appointed since Mr Gorbachev became leader in 1985.

Mr Yeltsin and Mr Ligachev have similar backgrounds as party leaders in industrial cities of western Siberia. Mr Ligachev established his reputation as an honest and effective administrator in Tomsk be-



Yegor Ligachev: look harder

tween 1965 and 1983, when he was brought to Moscow by President Yuri Andropov. In charge of personnel, he weeded out corrupt party officials and Brezhnev protégés. Mr Yeltsin, party leader in Byrdulovsk, came to Moscow in

1985 and soon superseded Mr Viktor Grishin, a typical product of the Brezhnev era, as city leader. Grappling with the enormous problems of the Soviet capital, whose facilities are inadequate for its 8.7m people, he established his reputation as an eloquent advocate of reform.

Yet, since 1985, Mr Ligachev, while advocating economic and political change, has repeated the basic message that restructuring is beginning to show results. This is in sharp contrast with Mr Yeltsin, who has said - and is widely believed to mean - that the Central Committee - that changes so far are only cosmetic and more radicalism is needed.

The tension between radical and cautious reformers is likely to be the central feature in Soviet politics for the foreseeable future, as it has been in China since 1978. The Soviet party's daily newspaper, Pravda, said yesterday in an editorial that the bureaucracy was "the worst and most dangerous enemy to-day."

Italian inflation 'likely to reach 6%'

By Alan Friedman in Milan

ITALY'S annual inflation rate is likely to rise to about 6 per cent by the end of 1987, according to the Bank of Italy.

The central bank forecast, which is compared with an initial government forecast of 4.5 per cent, confirms extensive concern about a rise in Italy's consumer price index.

The Bank of Italy says, in its October economic bulletin, that the rise in inflation can be traced partly to increases in VAT and in taxes on tobacco, as well as to a rise in energy and wholesale prices.

After touching a minimum of 4.5 per cent, the inflation rate rose to 5 per cent in September and is now at 5.5 per cent. Some economists fear the rate could exceed 6 per cent early in 1988.

Obstacle to Manila debt pact removed

By William Dawkins

THE PHILIPPINE Government and creditors of a private fertiliser company in the country have reached agreement on a \$60.5m (\$25.2m) debt that has held up the Philippines debt rescheduling agreement, bankers and officials said, Reuters reports from Manila.

A senior foreign banker said that lawyers for both sides exchanged final draft documents on Thursday. He said that, as part of the compromise, the creditors of Planters Products, led by Barclays, have agreed to a 15 per cent forgiveness of principal.

The banker said the fresh compromise involved the purchase of Central Bank debt paper on the secondary markets for use in raising foreign exchange to re-pay the Philippines debt. The Government is to pay Planters 37m pesos (\$11.7m) in unsubordinated and secured corporate interest, and to let the company, on paper, redeem its own debt, he said.

However, because of prevailing discounts on Philippine debt paper and the higher forgiveness of principal, the bank and creditors effectively written off about two-thirds of the debt, he added.

EC will press Seoul on patent protection

By William Dawkins

SENIOR European Commission officials are to visit South Korea next week to put pressure on Seoul to grant EC exporters the same patent protection as their US competitors.

A delegation led by Mr Jos Leef, the commission's deputy director-general for external relations, will hold talks on Monday and Tuesday with Mr Soon Young Hong, the Korean junior foreign affairs minister.

The dispute over whether EC companies in Korea get adequate protection against counterfeit competition has become a serious source of tension.

The commission delegation is expected to repeat earlier warnings that the EC might withdraw the import concessions which Korea, like other developing countries, gets under the generalised system of preferences (GSP), unless it gets satisfaction. This is the first time the EC has threatened to withdraw GSP status.

Although Korea has hinted it is prepared to give EC companies the same protection as their US counterparts, Brussels wants to keep up the pressure to ensure Seoul acts fast.

The commission wants retro-active patents protection going back between five and seven years for EC companies.

EC and Hungary talks stalled

By William Dawkins in BRUSSELS

HUNGARY and the EC have encountered potentially serious problems in their attempts to forge a trade and co-operation accord.

A week of talks between senior European Commission officials and a delegation led by Mr Tibor Antall, the director-general of Hungary's foreign trade ministry, have ended after a series of sharp exchanges.

The sides reached deadlock over the extent to which the EC should lift quotas on Hungarian imports in return for better market access for community exporters. As a result, the EC's negotiators will have to consult member states before deciding when to meet the Hungarians.

Police hold 88 in Malaysia 'to prevent clashes'

By William Dawkins in BRUSSELS

POLICE have arrested 88 people this week, including 11 members of parliament, in a crackdown aimed at preventing Malay-Chinese racial clashes, authorities said yesterday. AP reports from Kuala Lumpur.

They said three arrests were made in Sarawak, the east Malaysian state on Borneo island, expanding the widening ring of arrests outside peninsular Malaysia.

Mr Mahatir Mohamad, the Prime Minister, said the arrests, along with the closure on Wednesday of three newspapers and a ban on rallies, were necessary to prevent race riots.

Police set up roadblocks in various parts of Kuala Lumpur, which has a population of 1.5m, and conducted searches on some vehicles.

Mr Mahatir told Parliament that unspecified actions by Malay and Chinese politicians in the governing National Front coalition and the opposition Chinese-backed Democratic Action Party, and by individuals, newspapers and magazines had aggravated racial tensions.

These actions, he said, have made it appear his Malay-led government is oppressive to the Chinese and Indian minorities.

Fermenta to sue former executives for damages

By SARA WEBB, STOCKHOLM CORRESPONDENT

THE board of directors of Fermenta, the Swedish animal health and chemicals group, is to file suit for damages of more than SEK450m (\$42.2m) against three former Fermenta board members.

Fermenta was saved from financial collapse earlier this year after financial irregularities were discovered in its book-keeping under a previous management.

The three are Mr Goesta Byström, the former chairman and chief executive officer of Fermenta, the household appliances group; Mr Leon Nordin, a Fermenta board member and director of Fermenta's Italian subsidiary, and managing director of his own consultancy group, Leon Nordin Management; and Mr Ove Sundberg, who has served as managing director and chairman of Fermenta (and whom employees nicknamed Jesus because few had actually seen him but most believed in his existence). He is also a former chief executive of Kemnabod.

The complaint filed by Fermenta's legal counsel states that: "The former board of directors violated the stipulations of the Companies Act."

● The board did not fulfil its obligation to put sufficient control mechanisms in place in the accounting and fund management functions of the company, thereby allowing Mr Nordin, Mr Byström, the former chief executive, to divert company funds for his own benefit.

● The directors should have conducted a more thorough investigation in 1986 of the registration contract. Mr Byström, Mr Nordin and Mr Sundberg, along with other board members, resigned at a crisis shareholders meeting last December when it emerged that Fermenta's entire profit forecast of SEK700m for 1986 would be wiped out by a loss of SEK613m (before tax and allocations) in 1986.

Mr El-Sayed, who was recently declared bankrupt by a Swedish court, is under investigation by the public prosecutor for suspected embezzlement and fraud.

Fermenta said it would not file suit for damages against El-Sayed, who is unable to pay back the money. However, the company said it may file suit for damages against other former board members in future.

Denktash challenges UN

By ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT

MR RAUF DENKTASH, leader of the Turkish Cypriot community, said yesterday that the self-styled Turkish Republic of Northern Cyprus (TRNC) would actively seek international recognition if the UN General Assembly voted for an international conference on Cyprus.

Mr Denktash, speaking in London, said if the UN body did vote for an international conference it would automatically put an end to the efforts by Mr Javier Perez de Cuellar, the UN secretary-general, to achieve a negotiated solution to the Cyprus problem.

The Turkish Cypriot leader said the TRNC, which has so far been recognised only by Turkey, had not "knocked on doors" to seek international recognition so as not to upset Mr Perez de Cuellar's mediation mission.

However, the UN secretary-general's proposals for a federal system of government, accepted by the Turkish Cypriots, have been rejected by

the Greek Cypriots, who have insisted agreement must be reached on the withdrawal of Turkish troops from Northern Cyprus before the new constitution is implemented.

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Handwritten text in Arabic script: "مكتبة جامعة القاهرة"

Sri Lanka scraps plan for interim councils

By Mervyn de Silva in Colombo

SRI LANKA'S President Junius Jayawardene revealed yesterday he had scrapped the idea of an interim administration council to run the northern and eastern provinces.

The Sri Lankan leader, who leaves for Nepal tomorrow to attend the seven-nation South Asian summit, spoke to foreign correspondents for over an hour.

With the Indian peace-keeping force mopping up the last pockets of Tamil resistance in Jaffna, and his government facing a new threat from Sinhalese extremists, Mr. Jayawardene was asked about the administrative arrangements in the peninsula, where the curfew is still on but the restoration of basic amenities has been promised within a week by Major-General A S Kalkat, the Indian commander.

Political and administrative structures would be in place only after the provincial council polls, he said. He hoped to hold elections throughout the island before the end of the year. The draft bills, now before the full bench of the supreme court, to determine their constitutional validity, would be passed by parliament in late November, he added.

Mr. Jayawardene denied reports that a large team of Indian civil servants would arrive in the island shortly to take charge of the administration of the north. Since polls would be held within two months, the peace-keeping force would run the affairs of the north, with the help of some Sri Lankan and Indian officials, he said.

Describing the JVP as "anarchists" and not "Marxists", he said the international press should note that the JVP had attacked the offices of the socialist LSSP party and the Communist Party, had burnt vans transporting the newspapers of the state-owned Lake House, killed 37 active supporters of the ruling UNP, and threatened to kill Mr. Jayawardene if he refused to vote against the accord.

Mr. Jayawardene confirmed that each UNP MP was being protected by groups of armed party activists trained by the security services. "We must exterminate this menace," he said.

At Kathmandu, Mr. Jayawardene plans to discuss with Mr. Rajiv Gandhi, the Indian prime minister, a draft treaty incorporating the basic ideas contained in the letters of exchange which followed the July 29 signing of the Indo-Sri Lankan accord.

The treaty covers sensitive matters like the use of Trincomalee by foreign navies and the presence of foreign military and intelligence in Sri Lanka (Pakistan and Israeli mainly).

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On Wednesday, the two gov-

Robert Thomson, in Peking, assesses the Chinese Communist Party's gathering

Deng edges away from top echelon of power

THE NAME of Deng Xiaoping was absent from ballot papers given to Chinese Communist Party delegates selecting a new central committee, during the current party congress. This suggests that the paramount Chinese leader has retired from the highest level in the party.

Deng's apparent departure should mark the end of an era in Chinese politics, but he is likely to keep one other senior post that would give him some weighty influence.

It is clear that he wants a lower profile and has insisted that other elderly officials, some of whom have opposed parts of the ambitious reform programme, adopt the same.

The party is due to release a communiqué tomorrow, detailing the retirements from the Central Committee. Diplomats expect that Deng will take a group of senior revolutionaries

with him when he goes, clearing the way for the next generation of leaders, headed by Zhao Ziyang, the Prime Minister and acting party chief.

Delegates to the 13th congress, which began last Sunday, explained yesterday that they were given ballots with the names of 182 candidates for the Central Committee, and were asked to delete 10 names. This would make a new committee of 172 - down from the 210 appointed at the last congress in 1982.

The delegates said the ballot papers also had several blank spaces, and it was unclear whether additions could be made later to the committee.

Chinese officials had suggested that a slimmer committee would be able to meet more often than annually, as at present, and a factory manager, who told foreign journalists more than the party might like, indi-

cated that the number of alternate members would be reduced from 138 to 111.

The rejuvenation of the top echelon has been discussed for many years. There was a partial passing of the old guard at a conference in 1983, but several veterans of the Long March have consistently refused to relinquish their hold on power, fearing that the country would be led away from their communist principles.

A few remaining senior leaders are likely to be housed in the Central Advisory Commission, which is supposed to offer advice on party conduct and policy but is far enough from the main levers of power to give more control to younger officials.

Deng is expected to remain chairman of the Central Military Commission, as army officials have demanded that he stay.

gates to the congress. Yet the coverage has been extraordinary in its determination to prove that democracy is trickling down.

Opinion polls monitoring the popular response have been published daily, including one released yesterday, of passengers on a Peking-Shanghai express train. 98 per cent of whom said they had followed Zhao Ziyang's address to the congress.

About 96 per cent of passengers said the democratic rights of ordinary people have shown "remarkable or moderate" improvement, though no definitions were made of the respective responses.

Most remarkable has been the prominence given to Guan Guangmei, the model shopkeeper, who was at the centre of controversy this year over whether she was a capitalist for having made a large pile of money through leasing previously unprofitable shops.

The thoughts of Miss Guan, 37, have been highlighted each day. She told the nation that, from a "truncated small potato", she has become a "confident and happy reformer".

The government is also keen to show that the congress is a forum for genuine debate, although journalists are not admitted to panel discussions and have to rely on official reports, one of which yesterday was headed "Lively Discussion among Shanghai Delegates".

Shanghai's mayor, Jiang Zemin, admitted that the city's people have "too much business sense but not enough wisdom", while a film star, Zhang Ruifang, demanded that legislation be introduced to protect artists and the arts.

Chen Nideli, the city's finance bureau chief, compared public money to a cake: "It is small and everybody wants a bigger share. The way out is to have a bigger cake and that can be possible when the economy is revitalised through structural reform."

Ordinary Chinese, pleased as they are to have a more open government, if only for a week, realise that it is the party's way to launch grand campaigns in the hope of small gains. Openness is the reformist theme of the moment but, if economic reform falters and conservatives reassert their authority, the people are likely to be struck off the political agenda.

FOR THE past 16 years, officials of the Shin Bet, Israel's internal security service, have routinely lied during the trials of Palestinian suspects, a government-appointed commission of inquiry has found.

The commission, headed by Mr. Moshe Landau, a Supreme Court judge, was appointed in May after an army lieutenant had his conviction on treason charges overturned on the grounds that Shin Bet interrogators had falsified testimony used against him in court.

The 88-page report said: "This evil has to be uprooted." But it stopped significantly short of recommending the prosecution of individual operatives because this could open the way to a spate of legal suits brought by former and present prisoners.

A majority of the 4,000 Palestinian "security prisoners" being held in Israeli jails are believed to have been found guilty purely on the basis of confessions said by the Shin Bet to have been extracted during interrogation.

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UK NEWS

Copyright bill is aimed at encouraging innovation

BY RAYMOND SNOODY

A COMPREHENSIVE copyright bill designed to encourage innovation and the exploitation of innovation was published yesterday by the Government.

Provisions, which will create a framework of intellectual property law lasting well into the next century, include:

- Fraudulent copying of trademarks to become a criminal offence with a penalty of up to 10 years in prison.
- Unlimited fines and up to two years' imprisonment for making or distributing copies of copyright material.
- Original designs to be protected for 10 years.
- Computer software to be given the full protection of the law with provision for ascribing authorship of "computer-generated work".
- Authors and film directors to have rights allowing them to object to unjustifiable changes to their work.

However, the Copyright, Designs and Patents Bill, which has 297 clauses and has been more than a decade in the making, contained two notable omissions.

The Government has decided not to go ahead with plans to introduce a levy on blank audio tapes and has dropped plans to live off the Patent Office from the Trade and Industry Department.

Mr Kenneth Clarke, Trade and Industry Minister, said the Government had decided to drop the blank tape levy because the financial benefit to copyright owners and performers would be outweighed by the adverse effects on consumers, especially the visually handicapped.

The levy would have involved the Government in the collection of a new tax and the creation of a bureaucracy to distribute the proceeds.

"The cost of administration of the scheme would have been disproportionate to the amount of money concerned," Mr Clarke said.

The Government dropped plans to live off the Patent Office because more of its business is being carried out by the European Patent Office. A review concluded that the Patent Office would no longer be

viable as a free-standing body.

Mr Clarke said the bill, expected to have its second reading in the Lords on November 17, took account of the latest developments in modern technology and would "make the intellectual property system more accessible and relevant to the needs of British business."

In future, for example, patent litigation could be dealt with in county courts rather than the High Court to reduce costs and delays.

The Government has changed its views on original designs and what kind of spare parts can be copied without infringing copyright protection. When the design of a part, such as a gasket or car body panel, is completely determined by the need to fit or match, competitors will be free to copy the part in its entirety.

Mr John Butcher, junior Trade and Industry Minister, said the bill would greatly strengthen the UK's hands in negotiations with the European Community on harmonisation of intellectual property law.

Copyright, Designs and Patents Bill HMSO, £10.40.

Insolvency law bars 50 directors from office

By Richard Waters

FIFTY COMPANY directors have been disqualified from running businesses under a law introduced last December to protect creditors and shareholders from sharp practice.

Mr Francis Maude, Corporate and Consumer Affairs Minister, said yesterday.

The directors, mainly from small companies, had been banned for an average of five years, he said, at the annual dinner of the Insolvency Practitioners' Association in London.

Insolvency practitioners claim, however, that the real "rogue" directors - those the Company Directors Disqualification Act was designed to tackle - have yet to be brought to book.

"The determined rogues move so quickly," said the head of one large insolvency firm. "The law has not been in place long enough to catch up with them yet. The transgressors so far are mainly those who have made a mistake or did not know what they should be doing."

Insolvency specialists expect disqualifications to rise sharply, given the number of complaints they have filed. In January, the first month of the new law, the Insolvency Department reported that it had received complaints about 324 directors in 11 companies.

Under the law, insolvency experts are required to report on all directors of insolvent companies, whether or not there are grounds for concern.

"We are determined to put an end to the kind of behaviour where someone who is clearly unfit to be a company director causes misery and hardship to smaller companies by deliberately getting into debt to avoid debts," said Mr Maude.

He also revealed that 25 companies had appointed administrators so far this year. Administrators are appointed when a company is unable to pay its debts. The law also introduced in late 1986, is intended to help companies that would otherwise go into liquidation or receivership by allowing them to restructure their affairs.

ITV companies agree to curb Big Five's network dominance

BY RAYMOND SNOODY

INDEPENDENT television companies have reached agreement on a radical reform of the commercial system which is designed to give smaller regional companies more access for their programmes to the national network.

For more than 30 years a small group of network companies have decided what ITV programmes are shown nationally and made most of those programmes themselves.

The system has come under increasing criticism from regional companies such as Scottish Television. The Government has also been making it clear it regards the network system as a cartel in need of reform.

The managing directors and programme controllers of the 16 commercial television companies, meeting in Jersey yesterday, agreed the broad principles for a loosening of the network system.

The powerful programme controllers' group is to be augmented by two controllers representing the 10 regional companies.

More fundamentally there will be a cut in the guaranteed network programme hours of the Big Five - Thames, London Weekend, Granada, Central and Yorkshire - from 42 hours to 35 hours a week in the first year of the new system.

Further reductions would be made "in the light of the needs of the schedule and the financial strength of the system."

The hours taken from the Big Five will be added to the hours at present available to regional companies to form a pool for which all the companies will be able to compete. The pool will amount to about a third of the total national broadcasting hours available.

The plan is that in future the prices for each category of programme would be common to all. In the past companies such as Scottish have complained that when one of its programmes is accepted for network transmission it was paid a

fraction of what the Big Five companies paid each other.

Two working parties have been set up to work out the details and timing of the introduction of the new system but it is likely to be in place before next autumn.

Mr David Reay, chairman of the regional companies and managing director of Tyne Tees Television, said yesterday: "This agreement is a major step forward for ITV and recognises the enormous potential of the regional companies to contribute to the strength of the network programme schedule."

Mr Brian Tester, chairman of the Network Programme Committee and chairman of LWT, also welcomed the progress that had been made.

However, there is now a fear that jobs could be lost in the five network companies. They face the loss of guaranteed programme hours at the same time as independent producers, with the support of the Government, will be gaining greater access to all four national channels.

United may be sued by Sunday Sport chief

By Raymond Snoddy

MR DAVID SULLIVAN, chairman of Apollo which publishes Sunday Sport, said yesterday he might sue United Newspapers over the sudden termination of the brief and controversial relationship between Sunday Sport and The Star.

Speaking in Washington DC, Mr Sullivan said the severance had been decided entirely by United and he had been told of it only on Thursday morning during a telephone call to Heathrow.

"I hope we can solve things without litigation but I think litigation has got to be a possibility," Mr Sullivan said.

"I feel very badly let down. This is not the action of gentlemen or the action of people running a public company."

United Newspapers, which owns The Star, announced on Thursday that it was severing the relationship with Apollo "by mutual agreement."

Mr Sullivan said he had been presented with a full and complete account of the legal binding deals had been made.

BA to defend suit by US airline

BY MICHAEL DOWNE, AEROSPACE CORRESPONDENT

BRITISH AIRWAYS intends to defend itself "vigorously" against a lawsuit being brought by American Airlines for alleged abuse of its position in the UK market for computerised reservations systems.

American Airlines alleges in a High Court action which also names Travel Automation Services (Travicom), a British Airways subsidiary, that BA, in order to protect its Travicom system, has been seeking to exclude American's Sabre system from the UK market.

It is seeking declarations that BA's actions are unlawful and prohibited by Article 86 of the Treaty of Rome which outlaw anti-competitive behaviour. It is also seeking compensation and has filed a formal complaint with the EC Commission.

BA yesterday said it had not seen the documents in the case but did not feel there were any grounds for the action being taken by American Airlines.

Computerised reservations systems are rapidly becoming important marketing tools with big airlines on both sides of the Atlantic. They display details of flights, fares, hotels and other travel facilities on agents' screens, in an effort to win bigger shares of the market.

In addition to their own systems many big airlines are also combining into groups linking their systems to expand their market shares further.

Two such groups are being formed in Europe. One, called the European Computerised Reservations System (ECRS), includes BA, KLM of Holland, Coris (United Air Lines of the US), British Caledonian, Austrian Airlines, Alitalia, Aer Lingus and TAP of Portugal.

The other is called Amadeus, and includes Air France, Luf-

thansa, Iberia, Scandinavian Airlines System, Finnair and Linjeflyg of Sweden.

Mr Michael Buckman, president of American Airlines' computer reservation network, one of the world's largest, says his airline first tried to establish a UK presence for Sabre in late 1985.

"Since then, BA, directly and through Travicom, the travel agency automation system it controls, has engaged in a variety of practices intended to prevent the entry of Sabre into the UK," he alleges.

"Most notably, BA has refused to grant American Airlines permission to allow Sabre users to issue tickets on British Airways in the UK. By this refusal, BA, which allows Sabre to issue its tickets in the US and Canada, substantially reduces the usefulness of Sabre to a UK travel agent."

Nuclear power output falls by 22.3%

BY MAURICE SAMUELSON

THE OUTPUT of nuclear power stations dropped by nearly a quarter last year, according to a report on the performance of advanced gas-cooled reactors.

The Energy Department's monthly statistical bulletin showed a 22.3 per cent fall in output from nuclear power stations between June and August.

The Central Electricity Generating Board confirmed last night that its AGRs generated no power for 28 days during the summer and that difficulties continued.

The difficulties with the AGRs have been a key element in the board's long-running campaign to use pressure water reactors for all future nuclear plants.

Its need for extra capacity, whether coal-fired or nuclear, is also underlined by yesterday's measurement of the rate at which electricity demand continues to grow.

From June to August, 5.7 per cent more electricity was used than in the corresponding period of last year.

However, there was a rise of only 1.3 per cent in the amount delivered by the public electricity supply. The balance came from private industrial generators or from France.

Pressure water reactors, principally coal-burners, had to boost output by 8.6 per cent over the corresponding period last year.

The Government is to publish a discussion paper for MPs on its strategy on renewable energy sources. Mr Michael Spicer, junior energy minister, told the Commons yesterday. He is expected to say more about the Government's thinking on wind power when he commissions a 30W windmill - one of the largest in the world - in Orkney on November 10.

Onshore oil search round attracts 79 applications

BY MAX WILKINSON, RESOURCES EDITOR

APPLICATIONS to explore for oil and gas on onshore land have risen from 79 to 117 since the close of the second onshore licensing round on Thursday, the Energy Department said.

Companies applied for licences in 258 blocks each of 100 sq km.

The response was much lower than in the first onshore licensing round in 1983-84 when 117 blocks were applied for 446 licences.

This reflects a fall in oil prices and generally disappointing onshore results.

Mr Peter Morrison, Energy Minister, said he was pleased at the response as many promising areas had been allocated in the first round.

Unity Trust to gain bank status

By Hugo Dixon

UNITY TRUST, set up three years ago, will be able formally to call itself the trade union bank by the end of the year.

Unity has wanted to call itself a bank since its inception, but has had to stick to the more cumbersome title of financial institution because legally it was only a licensed deposit taker.

However, it has received Bank of England clearance to change its name to Unity Trust Bank.

Return of full jury trials to Ulster is King's aim

BY JOHN HUNT

AN ASSURANCE that the Government wishes to return to full jury trials in Northern Ireland as soon as possible was given yesterday by Mr Tom King, Northern Ireland Secretary.

In a speech in Oxford, Mr King was trying to persuade the Irish Government that it should pass the Extradition Bill which comes up before the Dail in December. This would enable suspected terrorists in the republic to be returned to Northern Ireland for trial.

However, politicians in the south have been saying passage of the bill is unlikely unless Britain agrees to change the Diplock court system in Ulster under which one judge sits in terrorist cases.

Mr King's words were intended to show that Britain had already carried out wide reforms in the north and that this was continuing.

However, his aim of returning to full jury trials is a long-term one. He was not indicating that the Diplock courts would be changed in order to ease the passage of the Extradition Bill. Nor was there any indication in his speech that he would agree to demands from the republic that the courts should sit with at least three judges.



Tom King believes confidence has improved

Mr King said Britain had already taken a further step towards liberalisation by allowing more cases to go to jury trials rather than the Diplock courts. In the first six months of this year 200 such cases had been certified for jury trial.

He said that in recent years confidence in the administration of justice had improved significantly in Northern Ireland. Many members of the nationalist community also held this view.

Labour's paper angry at closure

By John Hunt

LABOUR WEEKLY, the party's newspaper founded 16 years ago, published its last issue yesterday, after a long struggle with the Conservative Government to keep it open.

It is being axed as part of a cost-cutting exercise by the party's headquarters in Whitehall Road, south London. The paper has eight journalists and office staff but negotiations are continuing about possible redeployment.

A lead editorial in the newspaper says the fight to save the publication ended on Wednesday when the NEC voted by 20 votes to seven to close it.

"This is a sad day for the staff of Labour Weekly but it is a sad day for the Labour Party," it says.

It recalls that the paper often spoke with an independent voice on policy matters.

"The party needs such a voice more than ever as it embarks on a wide-ranging review of its policies, its organisation, its campaigning role and its presentation," it states.

Plessey to lose deputy chairman

BY DAVID THOMAS

MR MICHAEL CLARK, deputy chairman of Plessey since 1976, has resigned, ending a further year at the top of the company, following Sir James Blyth's resignation as managing director at the start of the month.

However, the company believes it has a strong team around Sir John Clark, executive chairman, and does not appear to be planning to add senior positions to the board in the near future.

Mr Clark, 60, brother of Sir John Clark, was deputy chairman from 1976 to 1986 and was appointed to the board in 1982.

He played a leading role in leading up Plessey's defence electronics business but has been less active in day-to-day business in recent years.

He intends to spend his retirement developing his extensive estate in Essex.

Licensing laws reform bill published

BY LISA WOOD

A BILL to reform licensing laws in England and Wales was published yesterday by the Government. It would allow public houses to open for up to 12 hours a day except Sundays but permit no changes in Sunday hours.

The Brewers Society yesterday described the bill as the "most important reform of licensing hours for over 10 years. It means the public will now have better and expanded services in pubs."

The Government has drawn heavily on experience in Scotland, where flexible licensing hours have been permitted for 10 years. Brewers, tourist organisations and consumer groups have lobbied for some years for similar hours in England and Wales.

However, the reform had provoked criticism from temperance groups and organisations concerned about alcohol abuse.

A new organisation called Keep Alcohol Safeguards, members of which include church and family groups concerned with alcohol abuse, said yesterday: "Instead of allowing longer public opening hours the Government should tackle alcohol problems effectively."

"It should strengthen laws on drinking and driving, keep alcohol taxes in line with rising incomes, boost funding for alcohol education and provide more money for services to problem drinkers."

It added that a lot could be done to reduce opposition to new development through the development planning system.

Mr Ridley said: "There are two key requirements. The first is that you explain and consult, and give people a chance to comment, before decisions are taken. The second is that when decisions have been taken people can have some confidence that they will be made stick."

The proposals in the green paper published last year would give greater certainty, not less, and would aim to ensure effective strategic policies at the county level.

Positive planning view urged by Ridley

BY HAZEL DUFFY

THE PLANNING mechanism needed to be seen as a positive means of promoting necessary developments, Mr Nicholas Ridley, Environment Secretary, said yesterday.

Mr Ridley, who was prevented by fog from delivering his speech to the National Housing and Town Planning Conference in Harrogate, said the assumption had grown up among the public that planning was a mechanism by which vested interests protected - the view from my window, the fields down the road, the value of my property.

The developer was cast in the

evil role of the profiteer with no social conscience.

However, development needed to be seen positively, in relation to housing, for instance, and household projections to be published early next year, were expected to confirm that more land for housing would be needed over the next 10 to 15 years, particularly in the south-east, than forecast before.

This was because "there are more small households, a more dispersed employment pattern and a desire generally for more second homes and more living space," Mr Ridley said.

Some of the land needed could be recycled land in urban areas but some had to be found on new sites.

He added that a lot could be done to reduce opposition to new development through the development planning system.

Boyson becomes director of Blacks Leisure

By Nikki Tait

BLACKS LEISURE, the campaigning and leisurewear group saved from receivership by a £1m consortium package last October, is strengthening its board with the appointment of Sir Rhodes Boyson, Conservative MP for Brent North and a former minister, becomes a non-executive director.

Mr Richard Wilkinson, who was previously managing director of Sears Financial Services, becomes finance director.

Mr Bernard Garbus, who led the original consortium and was chairman and finance director, becomes chairman and chief executive. Mr Stephen Morris, Mr Neil Howard and Mr Simon Bentley join the board.

Blacks was a high-flying stock during the early summer but its share price has halved recently.

David Churchill on pressure for legal changes to revive a one-time favourite pastime

Bingo operators pin hopes on Maggie's Den

BINGO club operators are pressing the Government to relax the regulations governing the game in an attempt to revive the popularity of what was once one of the country's favourite pastimes.

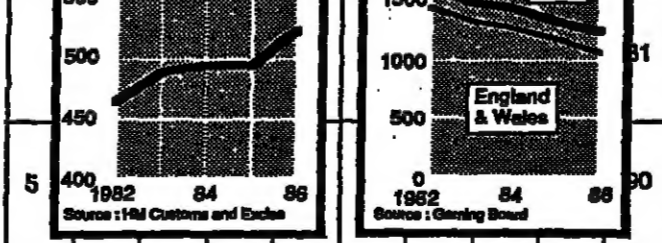
The industry's main target is a change in the law to allow advertising its games, as well as the opportunity to increase the prize money on offer. Their case is based on the impact of newspaper bingo games in recent years.

Mr Barry Anderson, managing director of Mecca Leisure's bingo clubs operations and chairman of the Bingo Association of Great Britain, says: "It is hardly fair that newspapers can freely advertise their bingo games and offer large cash prizes when the traditional clubs are strictly limited by law."

"There is no question that newspaper bingo has hurt the industry. The cost of buying several newspapers a week to play the game has obviously hit into the disposable income of people who belong to our clubs."

The tabloid papers' move into bingo as part of the Fleet Street circulation war came at a bad time for the bingo clubs, which in the early 1980s had been increasingly looked out of step with other trends in the booming leisure industry.

Bingo had been the craze game of the late 1950s and 1960s, offering working-class housewives the opportunity to escape the home once a week and enjoy a social evening in a relaxed atmosphere. While men went to the pub or betting-shop, their



wives went out to play bingo with their friends.

Cinemas, hit by the growth of television, were converted at a fast pace into bingo halls to meet the surging popularity of the game.

In its heyday in the early 1970s, there were more than 1,700 licensed clubs and more than 5.5m regular players.

Now, however, the number of licensed clubs has fallen to 1,136 with 75 clubs holding licences but not open for business and regular players are estimated at about 3.5m. Only about a third of licensed clubs are part of the larger chains.

The main chains are Rank Organisation with 91 clubs, Mecca (78), Coral (74), Granada (51) and Zetters (28).

Bingo's problem was that it became a mature industry in every sense of the word. While

converted cinemas and church halls were acceptable in the less sophisticated environment of the 1960s and 1970s, the lack of investment over the years made bingo clubs look dowdy by the 1980s, especially in comparison with other leisure facilities, such as renovated pubs and clubs.

At the same time, bingo failed to attract the new generation of younger housewives. The typical player is aged 55.

The consequence was a steady decline in admissions in the late 1970s and early 1980s. "The halcyon boom days of bingo are long over," the Mintel market research company pointed out in a recent report.

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Information technology disappoints institutions

BY DAVID THOMAS

MANY FINANCIAL institutions believe that new information technology systems are not living up to expectations, according to a survey.

The survey, carried out by the MORI polling organisation for Electronic Data Systems, the computer services subsidiary of General Motors of the US and The Economist magazine, also revealed short-term planning and a lack of management controls among many financial institutions.

The survey, carried out before the stock market crash, was of 46 board members of banks, building societies and insurance companies.

Almost three-quarters (71 per cent) said they were not fully satisfied that they were matching their competitors in the effective use of information technology.

Fully 88 per cent thought new technology would have a great impact on profits in future, but a third were not planning to increase their investment in technology.

Four-fifths were not completely satisfied that their investment in information technology had lived up to their expectations, although about a half were fairly satisfied.

Most (81 per cent) planned no longer than three years ahead when introducing new technology and a quarter of investment banks said they planned on an ad hoc basis when requirements arose.

Some 41 per cent said information technology was not being used in the same way as the rest of the business, with many reporting no goals at all being set for the new systems.

Boyson becomes director of Blacks Leisure

By Nikki Tait

BLACKS LEISURE, the campaigning and leisurewear group saved from receivership by a £1m consortium package last October, is strengthening its board with the appointment of Sir Rhodes Boyson, Conservative MP for Brent North and a former minister, becomes a non-executive director.

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Prison officers to vote on action over manning

BY JIMMY BURNS, LABOUR STAFF

THE PROSPECT of widespread disruption of Britain's jails before the end of the year loomed last night after leaders of the Prison Officers' Association announced they would ballot their 24,000 members on industrial action in their dispute over manning levels.

Mr John Bartell, POA chairman, told an emergency delegates conference yesterday that the prison dispute was now "at the crunch point" and that industrial action was necessary to draw public attention to overcrowding in prisons.

At the centre of the dispute is the association's claim that the Home Office is intending to appoint only 750 extra officers instead of the 950 it pledged as part of its new pay and conditions package known as Fresh Start.

The Home Office is playing Russian roulette with future manpower and we are about to face the actual chamber in the barrel where the bullet is located. We are now at the crunch point," Mr Bartell said.

The Home Office claimed last night that POA leaders were misrepresenting the Government's position, although it said that it would wait for the results of the ballot before deciding what steps to take.

NUPE orders biggest survey of membership

BY DAVID BRINDLE, LABOUR CORRESPONDENT

THE BIGGEST membership survey of a trade union is being prepared by NUPE, the opinion research group, for the National Union of Public Employees. NUPE is spending almost £20,000 on the exercise in one of the clearest signs yet that the unions are prepared to take positive action to broaden their appeal.

The survey is expected to involve more than 3,000 of NUPE's 67,000 members. A questionnaire will be followed by a review of communications, a more intensive sub-survey of shop stewards' views and face-to-face discussions with members in "focus groups".

Mr Tom Sawyer, NUPE's deputy general secretary, said yesterday that the exercise was aimed particularly at establishing the attitudes of rank-and-file members.

"All voluntary organisations are activist movements - we depend on activists," he said. "But some of the messages we get from the activists may be different from the message from the membership as a whole."

Many NUPE members were part-time women workers employed at relatively isolated workplaces, and the survey would be especially important in reflecting their views on the union and its services.

NUPE has been criticised for being too much of a "top-down" union that we are not getting to these members as well as we should," Mr Sawyer said.

Clyde yard strike over 345 job losses

BY KEVIN BROWN

WORKERS at the Scott Lithgow shipyard, on the lower Clyde, held a one-day strike yesterday after Trafalgar House, which owns the yard, announced 345 redundancies.

Trafalgar House said 324 hourly paid workers would have to go, together with 21 salaried staff. A further 200 employees working for subcontractors are also expected to leave the yard because of lack of work.

The walkout followed a stormy meeting of the existing workforce of 1,300. Local union officials have agreed to use all possible means to keep the yard open, but there was no indication that further action would be taken.

Trafalgar House said the redundancies had been made inevitable by the failure of the yard to attract orders since the completion of work on the container ship Atlantic Conveyor for Canada, a Trafalgar House subsidiary.

Scott Lithgow has only one order left on its books - a drilling rig for Iceland - which all expect to move into deep water shortly for final preparation.

Trafalgar House said: "The future is very bleak indeed, and it is no real consolation to us that there are many others in this situation in shipbuilding."

The yard is expected to go on to a care and maintenance basis if no orders are placed before the British rig is handed over. This could mean a further reduction in the workforce, to as few as 120 workers.

The latest redundancies followed a row between Scott Lithgow and Mr George Younger, the Defence Secretary, who told the yard to "get its act together" after rejecting a £12.5m bid for a contract to build three small ships for the Royal Navy.

The rejection of the bid, which had been reduced from about £20m, was seen by local union leaders as confirming the yard's loss of business, even though Scott Lithgow was offered the chance to submit a revised tender.

Scott Lithgow retains the capability to build conventional submarines, but has failed to win export orders for its Ocean Mark design. The yard has been told by the Defence Ministry that it is essential to lead yard for Royal Navy production.

Philip Bassett in Miami looks at how American workers are cashing in on cheap credit

Plastic union cards catch on in the US

NORVELL is an American worker living in Sioux City, Iowa. Aged 44, he has been driving a Greyhound bus for the last 16 years. He's a father of four and a long-standing member of the 94,000-strong Amalgamated Transit Union. He's also the one-millionth US trade unionist to hold a union credit card.

He sees no contradictions between being a member of his union, and the unions offering him credit facilities. "Compared with other cards that I've held," he says, "the union card offers more advantages and fringe benefits. It's great."

Mr Norvell is reasonably well-paid, reasonably secure in his job - a member of the so-called "new collar" class in America; and exactly the kind of employee that the TUC in Britain would like to reach with its notion of harnessing the collective market power of 9.2m trade union members.

Among the proposals for the future of unions in the UK put forward by Mr Norman Willis, TUC general secretary, few have been greeted with such scepticism - derision in some cases, from some TUC unions - as the idea of a TUC credit card.

Not so in the US, from where

Mr Willis got the notion. There, Union Privilege Benefit Programs (UPBP), a non-profit making arm of the AFL-CIO, the US equivalent of the TUC, estimates that the number of card holders will probably rise within 12 months to 2m, or 18 per cent of current affiliated membership.

"We've seen the criticisms - why don't you spend more time worrying about workplace conditions and less time worrying about credit cards?" says Mr Ray Denison, UPBP president. "That is, if you develop this programme you are sacrificing your traditional role, or abandoning your principles."

"But I don't see a philosophical conflict: they're not exclusive. We're just extending trade unionism from the workplace to the marketplace."

Since its launch in February last year, 65 unions have signed up and the union credit card has been a runaway success. The first mail shot 14 months ago produced the highest-ever response rate for a newly-issued credit card in the US: 20 per cent, instead of the normal rate for the industry of 1.5 to 2 per cent.

Mr Elgie Holstein, director of

the Bankcard Holders of America consumer group, says the AFL-CIO card is a "perfect example" of a low-interest credit card. "They negotiated a deal for an affinity group credit card at low interest, and they got the low interest deal simply because they decided to get a good deal for their members."

The Union MasterCard, linked to the Bank of New York (Dellaware), allows union members to charge purchases to credit in two ways - either at true credit, with an APR 5 per cent above prime rate, with no annual fee, or using a minimum 25-day grace payment period, with APR 7.25 per cent above prime, with fees related to money spent.

The card also includes a skip payment option, which allows union holders to miss a payment if they are on strike for more than 30 days.

Among the advantages for the union are increased membership identification, unions with more than 300,000 members have their cards personalised with the union's name and insignia. Union-member communication is enhanced by a facility in the scheme for the union to include inserted messages

Crucially, it allows the unions to provide members with a service they find attractive. An AFL-CIO report on the card scheme says: "It was not the intent of the unions to enter the credit card business, but in as much as most Americans use credit cards, union members should have the opportunity to obtain the best possible card at the lowest possible rate and enjoy the greatest potential for savings."

For union members, the principal advantage of the union card is its interest rate. At 13 per cent, it is well below the market rates of 18 to 21 per cent. The AFL-CIO estimates that savings to members from lower interest rates are running at \$30m (£18.75m) so far this year.

Mr Denison says: "What is the point for a union of helping someone get a wage increase, and then they go outside and get skimped? If the union can save them a percentage in the marketplace, then you're effectively securing for them that extra percentage as a further increase."

According to UPBP figures, the largest single use by union members so far of the card has been specifically to take advan-

tage of its lower interest rate by transferring their current debt on other cards they hold to the union card, capitalising on the fact that if they transfer a debt from a card with an interest rate of 18 per cent to one of 13 per cent they are making a 50 per cent reduction in their loan costs.

UPBP says that test-market research suggests that on spending, the card is used mainly by union members for unusual or emergency payments, such as a burst car tyre, or for funding large-scale purchases, such as airline fares. The average outstanding balance on the union card is about \$500 (£500).

The AFL-CIO is now dealing with inquiries about its card scheme from union organisations outside the US, including some large TUC unions in the UK, and from commercial bodies interested in seizing the chance of servicing the union market in Britain.

"This is a historic new dimension to the American labor movement," says Mr Denison. "It's been very successful - and unions in other countries like the UK will develop programmes on similar lines."

BT staff urged to accept deal to speed inquiries

BY CHARLES LEADSEATER, LABOUR STAFF

CLERICAL WORKERS at British Telecom are being recommended to accept an agreement which would allow the company to improve its service by introducing a streamlined procedure for dealing with inquiries backed by a national computerised customer service system.

The workers, members of the National Communications Union, are being consulted on a possible agreement which would pave the way for co-operation with the introduction of the system. The outline agreement covers job security guarantees, and a commitment to consult with the union on workers' involvement in job design and work organisation.

The proposed agreement has been fully endorsed by the NCU clerical group executive, according to the union's journal published yesterday. Mr Billy McCleary, the NCU clerical group secretary, said BT had cleared up union concerns over the potential job losses arising from the system's introduction and the future of

Glass workers strike over 5.4% pay offer

By Jimmy Burns, Labour Staff

WORKERS AT a floatglass plant in St Helens, Merseyside, owned by Pilkington Brothers, the world's largest manufacturer of glass, staged a 24-hour strike yesterday in protest at a 5.4 per cent pay offer.

However the action by a quarter of the 900-strong workforce appears to have had only a limited effect because of the decision of the GMB general union, the majority union at the plant, not to support the strike.

No glass products left the factory yesterday as it was picketed by members of the AEU engineering union, the building union Ucu, and the white-collar ASTMS.

However, the company claimed customers had received their normal supplies a day early, and production had not been disrupted. Nevertheless the company agreed to resume talks yesterday in an attempt to stop action from spreading to its other floatglass plant at Greengate, also in Merseyside.

Scargill attacks South Wales NUM leadership

BY OUR LABOUR CORRESPONDENT

RIFTS WITHIN the National Union of Mineworkers blew in to the open last night when Mr Arthur Scargill, NUM president, delivered a strong attack on the leadership of the union's South Wales area.

Speaking in South Wales, he said, it was "deeply disturbing to see the destructive and degenerate defeatism implicit in new realism operating in certain sections of my own union and to see it even in journals, such as the South Wales Miner."

This journal, the official publication of the South Wales NUM, has been reflecting the growing friction between the area and Mr Scargill and his supporters over such issues as the extent of the NUM's present national overtime ban and British Coal's demand for agreement to six-day working at the planned Marmarth pit.

South Wales is against stepping up the overtime ban, over British Coal's disciplinary code, and has led a so-far successful alliance of NUM areas opposed

to Mr Scargill's call for tougher action.

The latest issue of South Wales Miner says pointedly that "a position similar to the 1984 strike is not what our members voted for."

It also carries an article by Mr Kim Howells, the NUM area's research officer, proposing that the NUM "return to the mainstream of the labour and trade union movement" and warning: "We will continue to achieve nothing in isolation."

Mr Scargill, speaking last night in Merthyr Tydfil, likened this article to the arguments of union leaders who opposed socialist principles, accepted flexible working and supported single-union, no-strike deals.

He said: "If that is the kind of mainstream to which South Wales Miner refers, then God help us."

Mr Scargill also argued that the NUM and the labour movement faced a clear choice of submission to "the ravages of the capitalist state" or a fight back through solidarity.

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Saturday October 31 1987

A floor under the market

FEW THINGS more succinctly encapsulate the dramatic change in governmental attitudes to markets than the short history of the British Petroleum share offer. At the outset it was seen as the Thatcher Administration's most determined effort yet to sell the merits of market capitalism to the British people. Yet within the space of a mere two weeks this £7.2bn issue has become the subject of a highly unusual exercise in government intervention in the capital markets.

At the behest of Mr Nigel Lawson, the Chancellor, the Bank of England's role as lender of last resort to the banking system has been extended not only to British but to international investment institutions and securities markets. After the wild gyrations on the world's bourses over the past fortnight there are few takers for what President Reagan once called the magic of the markets, and some of the most ardent campaigners for deregulation were, predictably enough, among the more clamorous in their demands for a BP bails out.

Mr Lawson can at least claim that this ideological about-turn is not a reversal for the underwriters. He has merely put a floor under the BP share price by arranging for the Bank of England to buy back shares over a limited period at a price that is in line with the closing price on Thursday. The underwriters will thus incur substantial losses, while enjoying short-term protection from a further market slide. This has the merit of preserving the original point of the exercise, which was precisely to protect the Government and the taxpayer against market instability while ensuring that the market comes under less liquidity pressure.

Better compromise

The risk that the American investment banks, whose underwriting system left them more exposed to losses than the British, would depress the market by dumping BP shares in London, can now to some extent be controlled.

Certainly it looks a much better compromise than the original plan by Shadow Chancellor John Smith that the share offer should be stopped tout court - a particularly odd suggestion to come from Labour, given that it would involve the market in the City but Wall Street at the taxpayer's expense. There does nonetheless remain a risk that one arm of government may end by buying financials while the other is selling them, if the stock market slide resumes. And Mr Lawson has not so far provided an answer to the

plight of the small private investors whose ignorance of the stock market led them to put in for the shares despite the crash in the BP share price.

Popular capitalism

The dangers of selling popular capitalism as a by-product of privatisation have never been more clear. Too much of the marketing emphasis has been on joining the party and making instant profits; too little on educating inexperienced investors in the real nature of a market in risk capital. By failing to strike a sensible balance on this score the Government has jeopardised one of the more important elements of its programme for a third term.

Ironically, the fact that private share ownership is not very widely dispersed in Britain affords some protection against the wider economic consequences of a high proportion of savings is undertaken through the medium of insurance companies and pension funds, the British people are less prone than their American counterparts to feel squeezed when share prices go down. At the same time, a financial system in which the big capital market risks are undertaken primarily by giant savings institutions instead of investment bankers is likely to be more robust in the face of stormy financial weather. This is why the British insurance fraternity was not pressing for the BP issue to be stopped, while the Wall Street bankers were pulling all available strings for a bails out. The Americans took on excessive risks in the heady atmosphere of a bull market. For them, the consequences of greed are inevitably more painful than for those who are simply putting other people's money at risk. That is not to say that the crash has been purely a matter of financial structure or of technicalities. Markets have been looking to governments for reassurance; and to a limited extent governments have provided it through exchange rate intervention since the Louvre Accord. But the result has simply been to transfer volatility to the capital markets, where the uncertainties in US and international economic policy came home to roost a fortnight ago. The prerequisite for stable share prices remains the same now as then: a credible US fiscal package and a convincing message on what constitutes a sustainable level for the dollar, within a framework of wider international economic co-operation. Until we have that, the markets will retain the right to administer another salutary shock to all our systems.

Chancellor Lawson may have calmed the stock market with his BP safety net. But big questions remain, say Max Wilkinson and Richard Tomkins

Out of the valley of death but only just

THE BATTLE OF the British Petroleum share issue may have been quelled by the Lawson truce, but the scars of war will not be easily forgotten.

"This isn't about our losses at all," said one of the American underwriters whose firm stood to land a hefty slab of \$240m (£130m) costs in midweek. "It's about a reasonably important financial power behaving with reckless disregard for the consequences of its actions."

"It's about the sheer Earl Cargillian lunacy of doing this thing in the month of the Russian guns. How can you work with people like that?"

The strain on transatlantic relations is not the only negative outcome of the BP affair. There is no doubt that for all the Chancellor's fighting talk, the Government's privatisation strategy has suffered a serious reversal and that Britain's big financial company has itself been dealt a mighty blow.

For BP, the last few days have brought a terrible reversal of the grand confidence of recent months. After completing the acquisition of Standard Oil of the US in one of the biggest deals in history, the company was confidently planning further expansion, backed by strong cash flow and a much wider equity base. Yesterday, it was wondering nervously whether a complete collapse of its share price might transform it from sleek predator into timorous prey.

The Bank of England's decision to guarantee a floor price for the 2.19tn new shares on its own should, coupled with the size and underlying strength of the company, protect it from unwelcome attacks. However, the sight of the Old Lady striding on to the pitch as long stop easily hardens the resolve of Sir Peter Walters, BP's chairman. He was notably cool about the Government's effort to hype up the UK market for the greatest share offer of all time, and has kept studiously out of the public eye during the sales campaign.

These new shares, valued at £7.2bn only a fortnight ago, are now, in the phrase of one Whitehall official, "a flotation chamber full of water", which could greatly hamper BP's ability to ride out future storms in the world's stock markets.

However, as Sir Peter and his senior executives surveyed the wreckage of the issue yesterday, they took bleak comfort from the fact that it might have been a lot worse. The basic structure of BP remains as sound as it was before the collapse in stock prices. Provided the oil price

remains firm, it will forge ahead in the next year, generating cash from its major oil fields in Alaska and the North Sea.

Moreover, the fact that the offer was underwritten just before the market collapse, means that BP's £1.5bn rights issue, lashed together with the Government's share offering, represented a very cheap source of funds. This will be a substantial offset to the \$4.7bn which it spent earlier this year buying the remaining 45 per cent of Standard at a price which now looks much too high.

BP's lack of a strong equity base in the US, and fears of political complications, forced it to make a cash offer for Standard rather than the more prudent share exchange. The ability to raise more equity in the UK was severely hampered by the prospect of a huge government share sale. Complicated

A US underwriter accuses the British Government of "malicious myopia" in imposing such a drain on resources when central banks are pumping in liquidity

ed negotiations were needed before a formula could be agreed for combining the two. The rights issue has reduced BP's debt to debt plus equity ratio from just under 40 per cent to around 30 per cent. Without it the company would have been in a much worse mess.

In the absence of the Government's share flop, the worldwide collapse of stock prices would therefore have strengthened BP's ability to continue its desired path of expanding by acquisition. For the time being at least the company is likely to be constrained by the need to preserve every ounce of its financial strength to offset the waterlogging of its share price.

Meanwhile it will be particularly galling to Sir Peter who has spent the last six years setting BP into fighting trim, to watch the industry's standard bearer, Shell, increasing its relative lead. With huge cash reserves, and little debt, Shell's

ability to scoop oil and gas assets into its expansion may have been increased substantially. Exxon, too, emerges predictably strong, even though its recent policy of buying its own shares at the top of the market has cost it dear.

In the jostling for position which now follows, the Bank of England's guaranteed floor price for BP shares will therefore be a critical prop, and the strong performance of the new partly paid shares at the start of trading yesterday afternoon must give the company some hope that a rebound back to a healthier comparative level from yesterday's 207p to the 300p zone (for the fully paid share) will take weeks rather than months.

Mr Lawson, for his part, must be praying devoutly that for the medium term, he will prove to have struck the right floor price when agreeing to the clever idea of making the Bank a buyer of last resort. He was clearly terrified by the possibility, however uncertain, that as trading in the new issue started, BP shares might spiral downwards into the hands of, say, the Rube Goldberg company, who knows, some transatlantic takeover acrobat.

The Chancellor, however, could be forgiven a sense of déjà vu when he stood to face the music in the Commons on Friday.

Five years ago, almost to the day, another privatisation issue - Britoil's - flopped. Like BP's, it was, at the time, Britain's biggest-ever share offering. It involved an oil company, and it was Nigel Lawson, then Energy Secretary, who stubbornly refused to withdraw the issue when a sudden collapse in the oil price condemned it to failure.

Then, too, he took an aggressive line. "Britoil has now been successfully privatised on eminently fair terms for the taxpayer," he said - a reference to the fact that the actual proceeds were much higher than they would have been at the first-day closing price.

But the BP affair is much more serious. At £7.2bn, the offer was more than 13 times the size of Britoil's £544m. It has entered the record books as the world's biggest international equity offering.

The BP sale also involved a far from ordinary advertising campaign, intended to promote a scramble by unsophisticated



investors at a time when the stock market was approaching a historic peak in real terms and when perceptions of the US's difficulty in avoiding either a recession or a collapse of the dollar had been growing steadily more gloomy.

By mere good luck, the issue was left with the underwriters rather than with millions of voters, who would have clamoured plausibly that the Government had created a precedent and should have understood the world economy better.

The Chancellor left the House of Commons in little doubt on Thursday night that it was from the US that the strongest criticism and pressure for withdrawal had come. In contrast, the Government and the City emerged from the affair with an outbreak of hearty mutual back-slapping.

One reason for the difference in attitudes between the UK and US was the way the underwriting was done. In London, the 17 chief underwriters were able to lay off most of their risk among well over 400 sub-underwriters - insurance companies, pension funds and the like - so their individual exposure to losses was relatively small. In New York, however, the four US

underwriters - Goldman Sachs, Morgan Stanley, Shearson Lehman and Salomon Brothers - bore the whole of their risk themselves.

The formal request for the withdrawal of the issue came from the 17 UK underwriters, not from the US. But the 17 said this was because they were the only parties empowered to make the request and they felt it right that the question should be asked. (The fact that some had taken on small tranches of sub-underwriting prompted cynics to suspect an element of self-interest, too.) The UK sub-underwriters, meanwhile, loudly trumpeted their willingness to take their losses.

The American view was that it was madness even to consider proceeding with the BP issue in the face of extreme fragility in the international financial markets. One of the US underwriters privately accused the British Government of "malicious myopia" in imposing such a drain on resources at a time when central banks around the world were trying to pump liquidity into the system.

In London, however, the City - or at least that part of it without direct exposure to the BP underwriting - seemed to relish the discomfiture of its transat-

lantic cousins and put itself firmly on the side of the Treasury in dismissing the arguments for pulling the issue.

"The consequences of going ahead with the BP offer have been blown up out of all proportion," said a leading UK equity market analyst.

"Let's just remember that the collapse in world stock markets was caused by a perception that the US trade deficit was out of control. The BP offer is just a side issue, the half-time interval in the football match; it's just a lot of girls in pom-poms marching across the pitch."

"The market's salvation rests on the outcome of negotiations between Reagan and Congress on the US budget deficit; not on the BP offering. BP is not going to make or break the London market, let alone the rest of the world's."

The reason for the unity of view between the Government and the City is not hard to see. Underwriting is normally a lucrative business and both parties would have faced an outcry if the City institutions had been left off the hook for this issue. The Treasury has probably reaped far higher proceeds by proceeding with the offer than it would have done by postponing. And the City feels that its willingness and ability to absorb the underwriting losses has reinforced its credibility as an international financial centre.

The Chancellor claimed with typical bravado that there would be many more privatisations. That may be. But even when equity markets stabilise, a major rethink of strategy will be necessary. Certainly the view from New York was that he would find it much more difficult and expensive - to obtain overseas underwriting in future than in the domestic market even for a veteran privatiser like the merchant bank, N.M. Rothschild, it would take some chutzpah to mount another television and poster spectacle like that intended to sell BP gas and electricity to the masses.

Mr David Willetts, the former Treasury economist who is now head of the Conservative Centre for Policy Studies, thinks the consequences of the "Crash of BP" will be that small investors will be more inclined to go for steady yields than issues which offer the prospect of a quick capital gain. And he believes a move towards smaller flotations could help those who want to split up the Central Electricity Generating Board for sale rather than dispose of it in one block.

However, although the BP debacle may set back the cause of wider share ownership, the Government's overall privatisation programme for this year and next looks secure. The stock already sold, including British Gas and BP will bring in tranches worth £5.2bn this year, with another £4.4bn in the pipeline for next year. In addition, £750m of Treasury loans to British Gas and British Telecom are due to be repaid this year or next year. So up to April 1988, about \$11bn will be pouring in to Mr Lawson's coffers even if nothing else is sold.

But that is more Treasury book-keeping. The lesson that many will draw from the BP debacle is that the success of privatisation was due at least in part to a speculative bubble that has now burst, that stocks and shares are risky, and that Her Majesty's Government has been somewhat disingenuous in backing advertising campaigns which suggest they are a cert.

Man in the News

Xu Jiatur

The day Peking did its bit for capitalism

By David Dodwell in Hong Kong



ON MONDAY, as Hong Kong's stock market plunged more than 1,100 points, Xu Jiatur, the 71-year-old head of Peking's unofficial embassy in Hong Kong, slipped away from a critical party congress on the mainland and took the first available flight to Hong Kong.

In the following 12 hours, Mr Xu, who heads the New China News Agency in the territory, learned more about stocks, shares and futures contracts than in the whole of his previous four years in Hong Kong. He was briefed on an informal basis by Mr Willie Purves, chairman of the Hongkong and Shanghai Banking Corporation.

Mr David Ford, Hong Kong's acting governor, brought him fully up to date on the crisis. By the time he stepped back on a Peking-bound aircraft the next day, he had arranged for the Bank of China to take a one-third share in a HK\$1bn (£75.8m) "lifeboat" fund for the territory's futures exchange.

Mr Xu has climbed a steep learning curve since arriving from Guangzhou (Canton) in June 1983 with unruly swept-back hair, the open-necked summer shirt which is the hallmark of senior party cadres, his eyes hidden behind the dark glasses beloved by China's menacing traffic police.

His intervention in last week's rescue exercise highlights a new mood of stylised co-operation between local and Chinese officials in the run-up to 1987, when China will regain sovereignty over the territory. The timing was exquisite. Hong Kong's financial crisis had been looming for almost a week; an initial HK\$2bn rescue fund was arranged at high speed and entirely through local efforts.

China's officials and bankers in Hong Kong were not invited to take part in this first phase - in part because of their reputation for reaching decisions slowly, and in part because officials on both sides feared the impact on confidence if the Chinese were seen to be too eager to interfere.

Local officials felt that diplomatic niceties were better served by inviting the Bank of China to join the second phase

of support, and it is a measure of Peking's increasing alertness to local sensitivities that they agreed.

What was not expected - and indeed stunned a number of local bankers and officials involved in the rescue - was the speed with which Mr Xu got Peking to act. This spirit of co-operation - not to mention fleetness of foot - would have been out of the question four years ago.

Mr Xu has not always been so cooperative. Local political figures recall that soon after his arrival, he made a widely-publicised visit to the Kowloon walled city - a squalid quadrangle of brothels, one-time opium dens and illegal dental surgeries that for quirky reasons remains Chinese sovereign ter-

ritory inside Hong Kong. The visit was seen at the time as a perverse gesture of sovereign defiance of Britain.

His first press conference in November 1985 also sent sparks flying: he shook a copy of the Sino-British joint declaration in the air before a selected group of Chinese journalists, and accused Britain of deviating from the letter and the spirit of the declaration.

This attack began two years of concerted Chinese resistance against local proposals for political reform. The resistance climaxed last summer in an extensive effort to persuade local people to reject calls for direct elections before the 1990s, when China's own mini-constitution for Hong Kong will be ready.

As head of the New China News Agency in Hong Kong, Mr Xu is also in charge of the local Chinese communist party, which operates under the name of the Hong Kong and Macao Work Committee.

Formerly governor of Jiangsu province in distant central China, Mr Xu's appointment was a clear break with the past. His two predecessors had close links with the so-called "East River gang" in Guangdong province, neighbouring Hong Kong. With its base in the Cantonese-speaking south of the country, this group - which controlled the local communist party - had long been seen as reluctant to respond to directives from Peking.

Over the past four years, Mr Xu has successfully pushed this

gang aside, replacing it with a combination of mainland and local officials in a reorganised agency which has 10 departments that mirror departments in the Hong Kong government administration. Some local politicians have suggested this is intended to be a "shadow government", preparing to replace the existing colonial government in 1997 - but this is perhaps too machivellian an assessment.

Mr Xu has also overseen rapid growth in the economic and financial interdependence of China and Hong Kong. A total of 149 mainland companies now have an official presence in the colony.

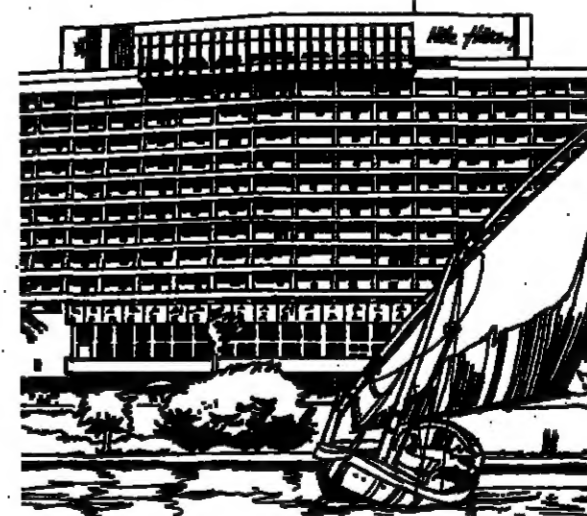
Most notable perhaps has been the striking growth over the past three years of the 13 "sister banks" that operate under the umbrella of the Bank of China. Their drive for an enhanced share of local loan business has generated anxiety and antagonism among competing banks.

It is a measure of the Bank of China's conservatism - despite its drive for growth - that it and other banks have been lending to speculators in the equity market. The Bank's preference for mortgage business and industrial loans means it does not now face repayment problems.

It is not clear whether Mr Xu played any part in steering the Bank of China in this direction, although it is known that friendly bankers had forewarned him of overheating in the equity markets.

Whatever his involvement, it is all likely to prove valuable experience for what Hong Kong's Chinese newspapers are suggesting Mr Xu wants as his next appointment - the first Governorship of Hainan after it is given provincial autonomy from Guangdong. Former leaders on this tropical island off China's southern coast have gained notoriety recently for currency speculation and black market trading.

The lessons learned in Hong Kong's anything-goes economy - not least the lessons of the past two weeks - will no doubt stand him in good stead.



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UK COMPANY NEWS

Berisford adjusts line on ABF bid

BY CLAY HARRIS

S & W Berisford directors had little choice but to shift their official stance towards the £70m bid by Associated British Foods from forthright rejection to grudging neutrality. With the sugar group's shares trading below 50p earlier this week, urging shareholders to spurn ABF's 400p cash offer could well have been challenged as neglect of fiduciary responsibility.

In the hope that the stock market may recover sufficiently before the bid closes to shift attention to arguments other than price, Berisford yesterday published a defence document which emphasises what it claims is a "fundamental restructuring" of the group during the last 18 months.

Because its end-September financial year closed only a day before ABF launched its bid, Berisford said a group profits forecast would not be available until mid-November. However, its wholly-owned British Sugar subsidiary yesterday reported a 38.3 per cent increase in pre-tax

THE S & W BERISFORD GROUP
Restructured for Growth

Berisford's new corporate letterhead - designed to bolster the bid defence

profits to £72.1m.

Berisford devoted two pages to rebutting what it described as "wrong or misleading statements" by ABF.

It criticised, for example, the implication that the sale of food subsidiaries to Hunter Saphir and the creation of a cocoa-processing joint venture with W.R. Grace revealed a critical need for cash. A maximum of £2.2m of the total £22m would be received in cash, Berisford said.

Reference to a "fragile balance sheet", moreover, reflected ABF's inability to understand its business, Berisford said. A substantial portion of borrow-

ings related to commodity and finance-related activities "which are customarily highly geared".

British Sugar's payment of £140m in dividends to its parent over five years - criticised by ABF - had taken place only after capital spending of £166m, with another £48m planned for 1987-88. They provided "no more than an adequate return on Berisford's investment".

Berisford conceded that British Sugar's pre-interest profits have declined every year from acquisition to 1986, but said this was misleading because it did not focus on the pre-tax ad-

vance reported for 1986, and now 1987.

The group has made total provisions of £28.2m relating to the closing out of its tin contracts on the London Metal Exchange, but had been advised that it had a "reasonable chance" of recovering about £21.5m claimed from the International Tin Council and its government members.

It also revealed that Brink's Mat, the security company, has begun legal proceedings against TGA Silver Extruders, a Berisford subsidiary, in respect of gold alleged to have been stolen in the 220m Heathrow warehouse robbery in 1982. Since then TGA's Midlands-based precious metals trading business has been sold to its management. The chance of a material loss was described as slight.

Berisford did not expect any liability arising from its US subsidiary Erlanger & Co's receipt and subsequent return of a £1.8m advance commission payment from Guinness.

Buoyant mortgage market lifts NHL to £11.1m

by Hugo Dixon

National Home Loans Corporation, listed mortgage lender, made pre-tax profits of £11.1m in the year to September 30, up from £2.8m in the previous 12 months. The results were much in line with expectations and the company's share price rose 5p to 185p.

The growth in profits, in what was NHL's second year of operation, was achieved on the back of extremely buoyant conditions in the mortgage market. During the year, the company benefited from a wide margin between its cost of funds and the mortgage rate and was able to expand the size of its mortgage book from £220m to £290m.

Net interest income was £8.5m. There was also strong growth in "other operating income", which increased to £2.7m (£0.4m).

This other income consisted largely of fees received for a growing number of mortgages for third parties. NHL is administering £174m in mortgages on behalf of Barclays Bank. It has a share but much smaller arrangement with TSB Scotland and several other deals are being negotiated with foreign banks.

NHL also receives fee income for administering mortgages which it has securitised. During the year, it removed £50m from its balance sheet in this way, since then it has securitised a further £27m.

Operating expenses grew sharply over the year to £6.5m (£2.4m), as NHL geared itself up to handle larger volumes of mortgages. Economies of scale, however, meant that operating expenses as a proportion of mean mortgage assets fell from 1.2 per cent to 0.97 per cent.

Staff numbers have grown from 94 to 216 and new computers have been bought. Over the next two years, about £5m will be spent on a new headquarters administration centre in Solihull, to which the company's operations will be transferred in 1988.

NHL said it thought it now had about 2.5 per cent of Britain's new mortgage market and was generating mortgages at the rate of £14m a month. It charged a 0.27 per cent fee on its own loans, written out to the books of other lenders or securitised.

The company said that it had negligible debt and did not expect any losses from mortgage fraud.

Profits after tax were £7.1m (£1.7m), giving earnings per share of 11.2p (3.4p) on a fully-diluted basis. A dividend of 3.25p (1.15p) was declared.

comment

This year NHL has had a very successful year. Building societies, which have traditionally dominated the mortgage market, have not been able to raise enough money to fund their own expansion. As a result, their market share has fallen and the margin between mortgage rates and the mortgage rate has widened. NHL, following the example of the building societies, has been able to raise money at a lower cost than the building societies and has been able to expand its market share. NHL is a leading manufacturer and distributor of smokeless fuels and is being sold to the Castles Group, manufacturer of the UK's best-known smokeless fuel. The business has been sold for £400,000. NHL said that it had now reached break-even point.

It added that this was the first disposal of a performing asset. Since the rescue, sales of non-performing assets have totalled approximately £17m. The amount owed on this account was currently between £5m and £7m, reflecting the level of accumulated interest.

IN BRIEF

SANDHURST Marketing is buying Manchester-based Britannia Wholesale Spices for initial £1.2m cash, further expected to be £275,000 payable within three months. Britannia's turnover was £156,000 in year ended May 31 1987.

SAYAGS International, a hardware group, is buying Paddock, a supplier of laminated plywood products, for an initial cash payment of £300,000. There will be further payments based on net assets on October 31 and future sales, in the latter case up to £450,000.

FLORISSY has disposed of its three peripheral systems subsidiaries in the UK, US and Canada to Distributed Logic of Anaheim, California, for \$6m (£3.5m) cash and \$1.5m (£0.75m) in notes.

CFU COMPUTERS: SCOA of France has received valid acceptances for 14,500 (89.96 per cent) ordinary CFU shares, including 9,122 (54.86 per cent) the subject of irrevocable undertakings to accept from CFU directors. The offer is now closed.

WALKER GREENHAWK is acquiring Shilton for an initial £40,000 in cash to be supplemented by a further profit-related payment of not more than £1m in cash or stock over a three year period. The full amount being based on Shilton achieving pre-tax profits of £1.5m per annum by January 31 1987. For the year ended January 1989 Shilton, specialist furniture maker, has indicated pre-tax profits of not less than £180,000.

BURFORD GROUP has sold a 113,000 sq ft office complex in Orpington, Kent, for £2.75m, to Epichold.

Globe Investment boosts profits 12.5% to £12.4m

BY MARTIN DICKSON

Globe Investment Trust, Britain's biggest investment trust, yesterday reported a 12.5 per cent increase in attributable profits for the six months to September 30. But it said it was too early to say how it had performed relative to the sector since the collapse of the stock market on October 19.

Mr David Hardy, chairman, gave no precise figures on the fall in the trust's net asset value since the crash, but he believed that up to yesterday morning it was down by roughly 25 per cent, compared with a drop in the FT-All Share index of about 30 per cent.

Globe has been cushioned, he said, by its portfolio of unquoted investments, which now account for about 15 per cent of assets, the fact that it had built up a £100m cash position in recent months - about 10 per cent of assets - and the fact that the Japanese market had not fallen as sharply.

Mr James West, managing director, said that Globe would want to retain its strong cash position until the economic outlook became clearer. The knock-on effect of America's

problems on the UK meant that Globe had cut its estimate of Britain's profits growth for 1988 from 15 per cent to 10 per cent, with dividend growth down from 12 per cent to 8 per cent.

Globe has underwritten about £21m of the British Petroleum issue, on which it yesterday faced a notional loss of about £3m.

Group attributable profits for the six months totalled £12.4m, against £11m in the same period of the previous year. Earnings per share on a fully diluted basis were up 11.48 per cent at 2.33p (2.09p). The net asset value per share on September 30 totalled 208.19p basic and 202.25p fully diluted, against 192.64p and 192.02p on March 31.

The interim dividend is 1.52p, up 10.14 per cent on the 1.36p at the same time last year, which the company said reinforced its commitment to increasing dividends in real terms.

comment

Globe's sheer size and generalist nature has long given it a rather boring image, as a super-tanker of the investment trust sector, very much linked to the

All-Share and unable to produce the outperformance possible for its smaller brethren. But what is dull in a bull market assumes the virtue of solid reliability when times turn hard.

And Globe's investment policies have added attractions in the current climate - its heavy concentration on the relatively strong UK economy; its build up of unquoted investments,

which, though potentially volatile, shield it from a falling market; and its emphasis on large stakes in a limited number of quality stocks. Yesterday's interim figures - of limited relevance in a world which has since witnessed the great crash - produced no real surprises, and the 9p rise in the share price, to 144p, reflected the general rise in the market, buying by the Coal Board pension fund and a realisation that the recent drop in Globe's share price had been greater than that in the All-Share. The prospective yield is 4.3 and the shares now stand at a discount to NAV of about 20 per cent - still above the average for generalist trusts, but then Globe has not been subject to bid speculation.

RHP in £12m US acquisition

BY DAVID WALLER

RHP Group, precision engineering group, has decided to make a current diversion to the US and bought a Minnesota-based fire-detection company for \$21m (£12m) in cash. The price was knocked down slightly because of the difficulty of issuing shares to finance such a transaction under present circumstances.

Det-Tronics designs, manufactures and markets fire and gas-detection instruments for safety-critical systems used in the petroleum, petrochemical, munitions, utilities and paper and pulp industries.

Its products are compatible with those of other companies in RHP's Fire and Protection

division, Gravinair in the UK and Deutera in West Germany. Inter-penetration of the two companies' markets is expected as a result of the acquisition.

In the year to September 1986, Det-Tronics made pre-tax profits of \$800,000 on turnover of \$17.1m, representing some 60 per cent of the US market for fire detection equipment. Unaudited accounts for the year to 30 June 1987 suggest that the company's turnover was \$18.2m, on which taxable profits of about \$300,000 were made. At the end of June, its net assets were \$11.5m.

In its last financial year, RHP made pre-tax profit of £17.7m on £104m turnover, only 3 per cent of which derived from the US.

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Strong growth at Portsmouth Sunderland

BY FIONA THOMPSON

HALFTIME profits from the Portsmouth and Sunderland Newspapers group, printer and publisher, showed strong growth, moving ahead from £98,000 to £249,000 in the period to September 30. Earnings per share rose from 4.8p to 13.1p.

"We have had a very good first half," said Mr Charles Brims, chief executive. The profits increase was due principally to higher advertising and contract printing sales.

APPOINTMENTS

Director of manufacturing at BP Oil

Mr Terry Lazenby has been appointed director of manufacturing and supply by BP OIL, UK marketing and refining arm of the British Petroleum Company. He succeeds Mr Ian Baker who is returning to Australia to become director, exploration and gas, BP Australia. Mr Lazenby was works general manager, BP Chemicals, at Grange-mouth.

Mr Derek Ford has been appointed deputy chairman of SEDGWICK INTERNATIONAL.

Dr John Howell has been appointed director of the OVERSEAS DEVELOPMENT INSTITUTES. He was deputy director and succeeds Mr Tony Kiblick who becomes senior research fellow. Mr Adrian Hewitt becomes deputy director.

Miss Jennifer Edwards has been appointed managing director of SELFLEDGES, part of the Sears group.

Mr Michael Cully has been appointed director of WATKINS & ASSOCIATES. He was a senior vice president of The Bank of Montreal.

THE ROYAL BANK OF CANADA

DA has appointed Mr Tim Boley as vice president, international private banking. He continues as managing director of The Royal Bank of Canada (Channel Islands).

Board changes at Virgin

Mr Peter Scott, chief executive of WRCS Group, has been appointed a non-executive director of the VIRGIN GROUP. His appointment coincides with the resignation of Sir Philip Harris, chairman of Harris Queensway. Sir Philip has been a non-executive director of Virgin since October 1986, assisting the group through its flotation and first year as a public company. He says this is not a sudden decision - he feels the need to spend more time with his own business.

Mr N.L. Jones becomes commercial and corporate finance director of OCEANICS GROUP from November 1 and takes over the responsibilities of Mr T.D. Venables who leaves to become finance director at GEC AVIONICS. Mr Venables suc-

ceeds Mr D. Richard, who has been appointed to the board of the recently-formed GEC-Marconi Group.

Mr Simon P. Brooke has been appointed a director of BAKER HARRIS SAUNDERS, with responsibility for property management. He was a director of JLV Estate Management Services.

Mr Jeremy Hayes, previously a principal estates surveyor with the PSA, has joined LYNTON PROPERTY & REVERSIONARY.

Mr Robert Wynn has been appointed chairman and joint managing director of WYNN ELECTRONICS. He succeeds Mr Charles Thompson, who becomes a non-executive director.

S. & W. BERISFORD has appointed Mr Eric Jones as group treasurer. Mr Alastair Gordon as group corporate finance manager, and Mr Andrew Wilson as group chief accountant.

Mr Oliver J. Rowell has joined the board of HEALTHCARE

COMMUNICATIONS as a non-executive director. He is general manager of Nuffield Hospitals.

MARSHALL & CO (BROKERS), part of the Lombard, Odier & Co group, Geneva, has promoted Mr Duncan Duckett, managing director, to deputy chairman; Mr Christopher Phillips, deputy managing director and head of corporate finance, to chief executive incorporating head of corporate finance; Mr Robert Leitchford, a director, becomes deputy chief executive; and Mr Laurence O'Mara has been promoted to assistant director.

KANGOL, Cleator, Cumbria, has appointed Mr Reg Beaby and Mr Derek Hall to the main board.

M & G finance director

From the New Year Mr Tony Shearer becomes finance director of the M & G Group. He joins from Deloitte Haskins and Sells.

ECONOMIC DIARY

TOMORROW: Confederation of British Industry's annual conference opens, Glasgow (until November 3). Sir Geoffrey Howe, Foreign Secretary, visits Jordan (until November 3). London-to-Brighton veteran car run.

MONDAY: International Foundation of Air Passengers' Association publishes annual survey. Department of Transport statement on fuel consumption. Presentation of economic outlook by five leading West German research institutes, Bonn.

TUESDAY: Mr Nigel Lawson, Chancellor of the Exchequer, presents autumn statement on the economy in the Commons. Treasury publishes October figures of UK official reserves. Figures for housing starts and completions for September from Department of the Environment. Bank of England statistics for capital issues and redemptions in October. NATO nuclear planning group meets, Monterey, California. West German unemployment figures.

WEDNESDAY: Department of Employment publishes August figures for overseas travel and tourism. Advance energy statistics for September from Department of Energy. Chancellor of the Exchequer speaks at the Lord Mayor of London's dinner for bankers and merchants of the City, Mansion House. Channel Tunnel Agreement signed at the Guildhall.

THURSDAY: Department of Employment publishes 1987 New Earnings Survey. Report Part C: Analysis by industry. Detailed analysis of employment, unemployment, earnings, prices, and other indicators. The Queen opens London City Airport at Docklands. EC standing committee on employment meets, Brussels. Fourth European Community Colloquium for Women's Voluntary Organisations, Queen Elizabeth II conference centre, Westminster. The Institute of Economic Affairs conference on privatisation and competition - the role of competition in privatised businesses. Bundesbank central bank council meets, Frankfurt.

FRIDAY: Presentation to bankers by International Finance Corporation, Zurich. West German Banking Association statement. US October unemployment figures.

FT-ACTUARIES INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS	Friday October 30 1987					Highs and Lows Index				
	Index No.	Day's Change %	Est. Earnings Yield % (27%)	Est. Div. Yield % (27%)	Est. P/E Ratio (1987)	Index No.	1987 High	1987 Low	Since Completion High	Since Completion Low
1 CAPITAL GOODS (214)	712.00	+3.4	9.90	3.90	12.69	18.27	688.45	683.33	706.94	661.28
2 Building Materials (30)	948.00	+3.3	9.80	3.90	12.69	18.27	688.45	683.33	706.94	661.28
3 Contracting, Construction (30)	1301.32	+1.5	9.73	3.87	13.75	29.46	1283.29	1280.10	1312.19	1281.50
4 Electronics (14)	1864.27	+2.2	9.72	4.67	13.43	54.41	1863.70	1833.13	1983.34	1754.82
5 Electronics (34)	1547.47	+2.5	10.44	3.26	12.40	35.33	1481.14	1481.35	1533.25	1416.99
6 Mechanical Engineering (60)	1368.00	+2.0	9.92	4.36	12.64	11.01	1368.70	1368.77	1417.97	1367.77
7 Metals and Metal Finishing (7)	482.54	+5.4	9.78	4.10	12.45	9.11	481.85	478.30	483.82	478.30
8 Motors (14)	1558.35	+4.6	11.50	4.32	10.10	5.06	1558.41	1558.41	1558.41	1558.41
9 Other Industrial Materials (22)	1191.79	+4.4	8.75	4.35	13.60	36.40	1191.71	1191.71	1233.44	1176.80
10 CONSUMER GROUP (182)	1036.91	+4.2	7.96	3.40	15.90	18.71	995.54	981.35	1067.75	994.54
21 Breweries and Distillers (21)	949.20	+2.8	10.57	3.92	11.94	17.52	923.50	915.94	954.61	926.35
22 Food Manufacturing (25)	1039.54	+4.5	8.99	3.79	14.36	16.66	784.37	777.25	785.58	711.11
23 Food Retailing (14)	1086.16	+2.8	7.04	2.65	18.80	29.47	1086.73	1086.12	1087.26	1086.56
24 Health and Household Products (18)	1383.92	+5.2	6.23	2.65	18.87	16.41	1374.69	1374.69	1412.59	1374.69
25 Luggage (30)	1086.16	+5.7	7.30	4.10	16.93	28.16	1027.75	1027.75	1067.52	1027.75
26 Packaging and Paper (16)	580.25	+3.9	8.25	3.50	15.95	11.13	481.94	478.32	505.88	476.55
27 Publishing and Printing (10)	949.20	+5.0	5.87	4.12	12.85	67.89	925.84	926.74	937.08	927.89
28 Textiles (16)	601.65	+4.1	7.31	3.59	11.65	12.57	584.13	582.98	593.59	584.13
29 OTHER GROUPS (87)	844.63	+4.6	10.29	4.30	12.10	20.82	807.18	807.18	827.47	785.34
41 Agencies (17)	1086.16	+7.4	6.11	2.21	21.49	16.79	954.56	967.11	1015.94	910.10
42 Chemicals (21)	1012.90	+5.3	9.73	4.34	12.56	35.10	982.76	982.76	1016.87	980.18
43 Complementary (13)	1113.89	+5.3	9.23	4.30	12.40	22.33	1027.58	1027.58	1083.67	910.10
44 Shipping and Transport (11)	1777.46	+5.3	9.23	4.30	12.40	22.33	1027.58	1027.58	1083.67	910.10
45 Telephone Networks (2)	1157.57	+2.6	11.07	4.41	12.05	18.98	992.77	992.77	1044.82	744.82
46 Miscellaneous (23)	1149.69	+4.2	13.06	4.09	9.13	30.87	1106.86	1106.86	1176.33	1106.86
49 INDUSTRIAL GROUP (185)	1086.16	+4.1	9.07	3.76	13.88	25.71	972.72	964.86	1031.61	964.86
51 Oil & Gas (17)	1715.44	+2.5	9.69	5.73	12.73	65.73	1674.34	1674.34	1689.53	1689.53
59 SHIPBANK INDEX (500)	976.39	+3.9	9.17	4.06	13.69	23.68	940.70	936.19	956.91	936.19
61 Financial Group (236)	649.21	+3.9	9.17	4.06	13.69	23.68	640.85	631.30	658.63	631.30
62 Banks (15)	649.21	+3.9	9.17	4.06	13.69	23.68	640.85	631.30	658.63	631.30
63 Insurance (Life) (8)	949.20	+3.9	9.17	4.06	13.69	23.68	940.70	936.19	956.91	936.19
64 Insurance (Compulsory) (7)	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
65 Insurance (Brokers) (10)	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
66 Merchant Banks (12)	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
67 Property (47)	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
70 Other Financial (28)	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
71 Investment Funds (28)	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
81 Mining (19)	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
82 Other Industries (10)	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
99 ALL-SHARE INDEX (728)	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90

FIXED INTEREST	Friday October 30 1987					Highs and Lows Index				
	Index No.	Day's Change %	Est. Earnings Yield % (27%)	Est. Div. Yield % (27%)	Est. P/E Ratio (1987)	Index No.	1987 High	1987 Low	Since Completion High	Since Completion Low
1 British Government	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
2 5 years	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
3 10 years	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
4 15 years	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
5 20 years	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
6 25 years	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
7 30 years	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
8 All stocks	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
9 All stocks	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90
10 All stocks	1012.90	+3.9	9.17	4.06	13.69	23.68	1012.90	1012.90	1012.90	1012.90

CONSTITUENT CHANGES: Brown (Mortgage) and Equity & Law (45) have been deleted. Britannia Security Group (48) and Quarry Estates have been inserted. NAME CHANGES: SPCC to Maxwell Communications Corporation, Essex Lighting to Essex, MMC Investments to MMC Group and Robertson Research to Robertson Group.

1 Flat yield. A list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4A 3DF, price 15p, plus 30p p.p.

GRANVILLE SPONSORED SECURITIES									
High	Low	Company	Price	Change	div. (p)	%	P/E		
206	133	Am. Brit. Ind. Ordinary	201	—	7.3	3.6	12.3		
206	145	Am. Brit. Ind. CULS	201	—	10.0	5.0	—		
41	32	Arran & Rhoads	32	+1	4.2	13.1	4.3		
142	67	BSE Design Group (USM)	67	+1	2.1	11.2	11.0		
186	108	Barton Group	175	+2	2.7	13.5	29.9		
186	95	Bray Technologies	172	+2	4.7	2.7	13.8		
281	130	CCL Group Ordinary	270	—	11.5	4.3	6.9		
247	99	CCL Group 11% Conv. Pref.	140	—	10.7	11.2	—		
171	136	Cardenium Ordinary	168	—	5.4	3.2	14.6		
102	91	Cardenium 7.5% Pref.	102	—	10.7	10.5	—		
180	87	George Blair	148	+2	3.7	2.2	4.3		
143	119	Isis Group	105	+2	3.4	3.3	11.5		
104	59	Jackson Group	104	+2	3.4	3.3	11.5		
780	380	Multihouse NV (AmstSE)	380	—	—	—	15.1		
62	35	Record Holdings (SE)	82	—	0.2	—	16.6		
114	83	Record Hds. 10% P/ASE	114	—	14.1	12.4	—		
91	60	Robert Jenkin	40	—	—	—	2.1		
124	42	Scotlands	124	—	5.5	4.4	4.9		
224	141	Torway & Carfax	220	+1	6.6	3.0	10.7		
42	32	Travis Holdings	42	—	0.8	1.8	3.9		
131	72	Unilock Holdings (SE)	72	+2	2.8	3.9	13.3		
284	115	Walter Alexander (SE)	204	+2	5.9	2.9	15.5		
201	190	W. S. Yates	200	—	17.4	8.7	20.0		
175	96	West Yorks. Ind. Hosp. (USM)	154	—	5.5	3.6	16.3		

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FINANCIAL ADVISER UNIT TRUST ASSOCIATION

MARKETING AWARDS 1987

A MESSAGE FOR ALL INDEPENDENT FINANCIAL ADVISERS

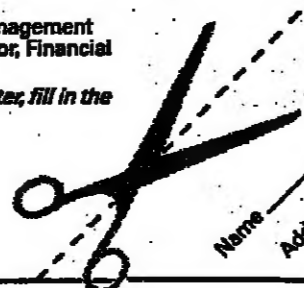
Even before the Financial Services Act takes hold, you know that life next year will be tough. For a start, you will face big competition from the "fled" company salesforces. They won't have to pay for their cars, computer systems, secretaries, sales packs and portable telephones. You will. And you will be caught between the commission ceilings imposed by Ladbroke and the financial demands of FIMBRA. You will find yourself dealing with a host of totally new rules - as well as the VAT man. And you will have to remain cheerful, as you give "best advice". That's why we created Financial Adviser. To help you sort out the wood from the trees - and decide which are the best

products for your clients. To give you the most detailed statistics available. And to keep you up-to-date with the ever-changing rulebooks. Now we're doing more. As an incentive to encourage independent advisers to increase their marketing skills, we have joined forces with the Unit Trust Association to launch the Financial Adviser-Unit Trust Association Marketing Awards 1987. The prize is a pair of tickets on British Airways' Concorde to New York. Three nights' accommodation. One pair of tickets will go to the small firm of advisers or brokers who our team of judges believe to be most effective at marketing financial services. The second pair of tickets will go to a branch of a non-polarised institution.

BRITISH AIRWAYS CONCORDE

Our judges are:
Bill Stuttford, Chairman of the Unit Trust Association (Chairman of the panel)
Vincent Dugglesby, Head of BBC Radio 4 Financial Unit
Alan Fletcher, Director of Pentagram Design
John Hackett, Director-General of the British Insurance Brokers Association (BIBA)
Robert McCrindle MP, Conservative Member of Parliament for Brentwood & Ongar; also Political Consultant to BIBA
Janet Walford, Editor of Money Management
Colin Chapman, Publisher and Editor, Financial Adviser

For more details of how you can enter, fill in the form.



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Return to: Mr. Nick Campbell, Financial Adviser, 91 Charterhouse Street, London EC1M 6DF.
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FINANCIAL TIMES CONFERENCES

World Telecommunications

INTL. COMPANIES & FINANCE

Indesit may be sold to Italian group for L50bn

BY ALAN FRIEDMAN IN MILAN

Indesit, the troubled Italian home appliance company that has been under court-appointed receivership for nearly two years, is expected to be acquired by Merloni Elettrodomestici, the white goods maker that is 75 per cent owned by the family of Mr. Vittorio Merloni, former president of the Confindustria employers' federation.

Merloni, which manufactures appliances under the Ariston brand name, is to pay around L50bn (\$30.7m) for Indesit, one of the main reasons why Merloni, Italy's second biggest white goods concern after Zanussi, is buying Indesit is because of Indesit's sales outside Italy, especially in the UK.

Whereas Merloni had a L5.6bn net profit on 1986 sales of L585bn and claims 16 per cent of the Italian appliance market, less than half its sales come from outside Italy. Indesit, meanwhile, despite its heavy losses in recent years, derived 70 per cent of its 1986 sales of L170bn from outside of Italy, half of those exports from the UK.

The Merloni takeover, which requires formal approval from the industry minister, is expected to see a total capital injection of L150bn at Indesit: one third of this is the purchase price, another third is destined for new technology and factory automation and the last third is

to be used for working capital and to repay Indesit's debt. Merloni last year produced 1.8m units, while Indesit manufactured 702,000 washing machines, refrigerators, cookers and other appliances.

It is understood that Merloni executives and Indesit trade union representatives have already met and discussed working together on the revival of Indesit's fortunes. At present some 4,000 of Indesit's 5,000 workers are on state-subsidised lay-off.

Merloni made its debut on the Milan bourse two months ago with the flotation of 25 per cent of its shares. The company's market capitalisation is around L110bn.

Toshiba Machine drops into the red

By Chris Rapoport in Tokyo

TOSHIBA MACHINE, a machine tool subsidiary of Japan's Toshiba electronics group, dropped into the red for the six months to September as a direct result of its violation of Cocoon regulations on exports to the Soviet Union.

Following the discovery of the violation earlier this year, the Japanese Government banned the company from further exports to Eastern Bloc countries. As a result its exports to communist countries dropped to ¥200m (\$1.4m) from ¥220m in the same period of last year.

The company reported a loss at the pre-tax level of ¥33m, compared with a profit of ¥130m in the same period of last year. It was the first deficit it had suffered in more than 10 years.

Sales were down 27.7 per cent to ¥44.7bn. The company has decided to pass its interim dividend and will probably omit its dividend for the full year as well. Toshiba, which owns 50 per cent of Toshiba Machine, came under extreme pressure earlier this year over the incident. The violation of the ban on exports of sophisticated naval equipment to the Soviet Union, became the symbol of US anger over its huge trade imbalance with Japan.

Even so, the controversy did not significantly damage Toshiba's sales in the US and the parent company was able to sustain its profit recovery in profits during the period.

Toshiba Machine, however, with after-tax losses of ¥185m in the six months, compared with a profit of ¥70m a year earlier, will be feeling the effects of the incident for some time to come.

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Nissan stages rally in first half

BY OUR TOKYO STAFF

NISSAN, Japan's second largest car maker, staged a marked recovery in its profits for the six months to September thanks to stringent cost-cutting measures and increased profits in the domestic market.

The company dropped into the red at the operating profit level last year for the first time in its history. This was largely the result of the effects of the high yen on its export margins.

Since that time, Nissan has shed about 10 per cent of its workforce, squeezed its suppliers for lower prices and boosted its sales in its home market.

As a result of these and other measures, the company was

able to push pre-tax profits up by 82.3 per cent in the first half of 1987 (¥1,000m). Sales were down 1.9 per cent to ¥1,713.3bn.

Exports on a unit basis dropped by 10 per cent in the period while sales in the domestic market rose by 7,000 units, or 6 per cent.

Parent company net profits contracted, however, to ¥22.2bn from ¥26.4bn, or ¥10.3 a share against ¥12.05. The interim dividend is being kept at ¥7 a share.

The company said that the improvement in the home market was in large part due to its success with its more expensive models. A Nissan executive added that the company's cost-cut-

ting programme had allowed about ¥150m from its fixed costs. This exercise was aided by cheaper prices for imports, such as plastic resins.

The company's exports of commercial vehicles were particularly hard hit in the period, dropping by 33,000 units to about 107,000 units. Sales of commercial vehicles in the domestic market, however, advanced by about 7,000 units, or 6 per cent.

Overseas production output jumped 35 per cent, with the biggest gains shown in the US and UK.

For the full year, Nissan aims to achieve pre-tax profits of ¥1,200bn on sales of ¥3,500bn.

Philips shows modest advance

BY LAURA RALIN IN AMSTERDAM

PHILIPS, the Dutch electronics group, lifted profits modestly despite lower sales in the third quarter and confirmed that it still expects earnings for all of 1987 to show an increase.

Net income rose 6 per cent to F1 126m (\$80.1m) in the July-September period from F1 127m a year earlier as financial expenses dropped sharply due to reduced currency losses. Turnover slipped 1 per cent to F1 126m in the quarter.

Sales of consumer electronics products and electrical components climbed in most geographical areas except Europe.

Philips confidently predicted that net income would rise this year and that sales volume would expand by about 6 per cent despite the recent turmoil

in world stock markets and any resulting curbs on spending and investment in the home market.

The fourth quarter is traditionally Philips's strongest trading period because of Christmas purchases. In our view the impact of this market volatility on the world economy and exchange rates can't yet be said to be so great that we should revise our sales forecast," said Mr Johannes Zantman, a vice president and member of the board.

Taking into account a number of planned financial transactions the trend in net income gives us no cause to revise the forecasts for 1987," he added.

Philips plans to go ahead with the partial flotation of its music production subsidiary, Poly-

gram, next month although the proceeds will probably be used to finance the acquisition of Philips's television division, He added, however, that the offer could be delayed if market conditions remained unfavourable.

In the third quarter operating income dropped 7 per cent to F1 55m from F1 59m in the same period of last year, the lowest quarterly level in years, as Philips sharply reduced bloated inventories.

For the first nine months profits rose 16 per cent to F1 55m from F1 47m in spite of a decline in turnover thanks to lower production costs. Operating income was flat at F1 2.1m.

Revenue declined 6 per cent to F1 36.7bn in the January-September period.

Good third quarter for Aetna

BY RODERICK ORAM IN NEW YORK

AETNA Life and Casualty, the largest stockholder-owned insurer in the US, has reported a further sharp increase in third-quarter profits. Growth in casualty property earnings offset a downturn in group insurance.

Net operating profits from property-casualty insurance in the latest quarter were \$38.8m from \$37.3m a year earlier. Premium and investment income rose to \$231.2m, or \$3.01 a share, from \$188.9m or \$1.72 a year earlier. Premium and investment income rose to \$231.2m, or \$3.01 a share, from \$188.9m or \$1.72 a year earlier.

For the nine months, operating net was \$339.1m or \$5.50 against \$408.2m or \$4.30 a year earlier. Premium and investment income grew to \$1,437m and \$401.6m from \$1,309.6m and \$367.7m.

Aetna said it had bought 800,000 of its shares, about 0.75 per cent of the total, at an average price of \$51 a share. It may buy another 800,000 shares.

It added that recent events in equity markets had had "minimal impact" on its shareholders' equity. Stocks accounted for less than 10 per cent of its assets and were covered by a hedging programme.

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FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

CS Fund Managers Limited		Fidelity Investment Services—Contd.		FBI Fund Managers Ltd (a)	
125 High Holborn, London WC1V 6PY	01-262 1133	Global Conservative	22.9	20.28	20.28
CS America Fd	18.2	Global Growth & Inc. Tr. Fd	19.7	19.7	19.7
CS International Fd	42.8	Japan Investor Spts (2)	34.2	34.2	34.2
CS Eurobond Fd	70.4	US Govt Bond	14.7	14.7	14.7
CS Income Fund	70.4	Investment Tr. Fd (a)	199.1	199.1	199.1

[illegible]

BASE LENDING RATES

[illegible]

The following is based on trading volume for Alpin securities dealt through the SEAQ system.

[illegible]

Plans	Yesterday	Fafts	Score
1	2	3	4
5	6	7	8
9	10	11	12
13	14	15	16
17	18	19	20
21	22	23	24
25	26	27	28
29	30	31	32
33	34	35	36
37	38	39	40
41	42	43	44
45	46	47	48
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53	54	55	56
57	58	59	60
61	62	63	64
65	66	67	68
69	70	71	72
73	74	75	76
77	78	79	80
81	82	83	84
85	86	87	88
89	90	91	92
93	94	95	96
97	98	99	100

[illegible]

Percentage changes since December 31, 1986 based on Thursday October 29, 1987

Monday	+22.68	Staten	_____
Tuesday	+17.57	Electricity	_____

[illegible]**BANKING DEPARTMENT**[illegible]

LIABILITIES
Notes in Circulation _____
Notes to Building Department _____

[illegible]

is published on

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1993		1992		1991		1990		1989		1988		1987		1986		1985		1984		1983		1982		1981		1980		1979		1978		1977		1976		1975		1974		1973		1972		1971		1970		1969		1968		1967		1966		1965		1964		1963		1962		1961		1960		1959		1958		1957		1956		1955		1954		1953		1952		1951		1950		1949		1948		1947		1946		1945		1944		1943		1942		1941		1940		1939		1938		1937		1936		1935		1934		1933		1932		1931		1930		1929		1928		1927		1926		1925		1924		1923		1922		1921		1920		1919		1918		1917		1916		1915		1914		1913		1912		1911		1910		1909		1908		1907		1906		1905		1904		1903		1902		1901		1900		1899		1898		1897		1896		1895		1894		1893		1892		1891		1890		1889		1888		1887		1886		1885		1884		1883		1882		1881		1880		1879		1878		1877		1876		1875		1874		1873		1872		1871		1870		1869		1868		1867		1866		1865		1864		1863		1862		1861		1860		1859		1858		1857		1856		1855		1854		1853		1852		1851		1850		1849		1848		1847		1846		1845		1844		1843		1842		1841		1840		1839		1838		1837		1836		1835		1834		1833		1832		1831		1830		1829		1828		1827		1826		1825		1824		1823		1822		1821		1820		1819		1818		1817		1816		1815		1814		1813		1812		1811		1810		1809		1808		1807		1806		1805		1804		1803		1802		1801		1800		1799		1798		1797		1796		1795		1794		1793		1792		1791		1790		1789		1788		1787		1786		1785		1784		1783		1782		1781		1780		1779		1778		1777		1776		1775		1774		1773		1772		1771		1770		1769		1768		1767		1766		1765		1764		1763		1762		1761		1760		1759		1758		1757		1756		1755		1754		1753		1752		1751		1750		1749		1748		1747		1746		1745		1744		1743		1742		1741		1740		1739		1738		1737		1736		1735		1734		1733		1732		1731		1730		1729		1728		1727		1726		1725		1724		1723		1722		1721		1720		1719		1718		1717		1716		1715		1714		1713		1712		1711		1710		1709		1708		1707		1706		1705		1704		1703		1702		1701		1700		1699		1698		1697		1696		1695		1694		1693		1692		1691		1690		1689		1688		1687		1686		1685		1684		1683		1682		1681		1680	
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1.94	1.94	1.94
1.95	1.95	1.95
1.96	1.96	1.96
1.97	1.97	1.97
1.98	1.98	1.98
1.99	1.99	1.99
2.00	2.00	2.00

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From 26th October

For details of how to advertise please contact:
Clive Booth

Telephone: 01-248 5284

Fax 01-248 4601

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BRITISH FUNDS				BRITISH FUNDS—Contd				FOREIGN BONDS & RAILS			
1987	Stock	Price	Yield	1987	Stock	Price	Yield	1987	Stock	Price	Yield
High	Low	±	Net	High	Low	±	Net	High	Low	±	Net
"Shorts" (Lives up to Five Years)											
1013	1013	1013	1013	1013	1013	1013	1013	1013	1013	1013	1013
1014	1014	1014	1014	1014	1014	1014	1014	1014	1014	1014	1014
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1121	1121	112									

Grain	Net	CAR	Int Ld
Charles All Profit Mgmt			Morgan Co Inc
2000000000	100.00	100.00	100.00
2000000000	100.00	100.00	100.00
DAKOTA All Profit Mgmt			DAKOTA All Profit Mgmt
2000000000	100.00	100.00	100.00
2000000000	100.00	100.00	100.00
The Charles David Fund			Charles David Fund
2000000000	100.00	100.00	100.00
2000000000	100.00	100.00	100.00

LONDON SHARE SERVICE

AMERICANS—Continued	No.	Name	Address	City	State	Zip	Phone	Telex	Fax									
BANKS, HP & LEASING																		
BEERS, WINES & SPIRITS																		
BUILDING, TIMBER, ROADS																		
CANADIANS																		
CHEMICALS, PLASTICS																		
ELECTRICALS																		
ENGINEERING—Continued																		
FOOD, GROCERIES, ETC.																		
HOTELS AND CATERERS																		
INDUSTRIALS—Continued																		
INSURANCES																		
INDUSTRIALS (Misc.)																		
BUILDING, TIMBER, ROADS—Cont.																		
DRAPERY AND STORES—Cont.																		
ENGINEERING																		

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Saturday October 31 1987

World equity markets rise again

BY JANET BUSH AND PHILIP STEPHENS IN LONDON AND RODRICK GRAM IN NEW YORK

WORLD EQUITY markets rose for the second day running yesterday, ending another highly volatile week on a calmer and more positive note in spite of continuing pressure on the dollar.

A measure of relief was felt internationally that the Bank of England had persuaded Mr Nigel Lawson, the Chancellor, not to go ahead with the British Petroleum issue without a safety provision.

The Bank's idea to offer a commitment to buy BP shares from any hard-pressed underwriter or private investor at the much reduced market price immediately instilled confidence, not only in London but also abroad.

A successful start to dealing in BP shares was the centrepiece of a broad-based recovery on the London stock market which had already been bolstered by a rally in Tokyo. The Nikkei index rose more than 700 points, its third largest daily rise.

The FT-SE 100 index closed 67.8 higher at 1,749.8. Turnover was concentrated in BP shares, with about 100m changing hands in the first half-hour after dealing in the partly-paid shares began yesterday afternoon. The party-paid price closed at 89p, well above the 70p at which the Bank of England has offered to buy back the shares.

On Wall Street, the Dow Jones

Industrial Average closed 55.2 points higher at 1,992.53.

On foreign exchange markets, the dollar remained under pressure in spite of sporadic central bank intervention. Mr Lawson suggested that senior officials of the Group of Seven leading industrial nations were seeking to lay the groundwork for a possible meeting of finance ministers and central bankers of the group.

He insisted that sizeable cuts in the US budget deficit were a pre-condition of any such talks, but added: "There is a lot of work going on in order to get a sensible and constructive package."

The White House and the US Congress face a three-week deadline to agree a reduction in the deficit before the automatic provisions of the Gramm-Rudman law come into effect.

Such an agreement could be followed by a meeting of senior Group of Seven officials in late November with ministerial talks taking place soon afterwards.

Mr Gerhard Stoltenberg, West Germany's Finance Minister, said yesterday that the Bundesbank had helped stabilise the dollar through heavy intervention and by its interest rate policy. Mr Karl Otto Poehl, president of the West German central bank, however, made it clear that his country's commitment to February's Louvre accord did not mean that it had

abandoned control on its money supply targets.

On Wall Street, there was some disappointment that the Dow had not managed to close above the key 2,000 level. A strong opening rally gave way to caution later as institutional investors turned more cautious ahead of the weekend.

Investors have faced huge falls on two Mondays in succession and did not appear to be entirely convinced that a third Black Monday could be avoided.

The dollar, which faced heavy losses earlier in the week, closed in London at DM1,720, unchanged from Thursday. Sterling rose fractionally to \$1.7220 from \$1.7205.

In New York currency markets, it appeared to be a widely accepted assumption among traders that the US Administration had decided to let the dollar drift lower, hoping the slide would not unsettle the markets or drive off foreign investors.

They said it was much too early to judge whether the gamble would pay off because they expected the dollar to fall further soon. Against this background, bond prices eased by about 3/4 of a point and UK government bond prices closed 1/2 a point lower after the Bank of England had supplied \$500m in gilt tranches.

Meanwhile, strains in the European Monetary System persisted. A formal statement from the Bank of France that it would defend the franc's parity in the exchange rate mechanism had only a limited impact.

A formal statement from the European Community's monetary officials believed that there is a strong economic case for a revaluation of the D-Mark within the system in the near future. They are concerned that any such move, however, could be severely complicated by political issues.

Changes in EMS parties have direct implications for the European Community's farm price subsidies and for its budget, both of which are at present the subject of intense wrangling between governments.

ABF already owns 23.7 per cent of Berisford, valued at \$133.2m in May from Ferruzzi.

The ABF-Berisford battle is one of two contested takeover bids now underway in Britain. The other is the all-share takeover offer for Storebrand, the retail group, by Benlo, the small civil engineer and investment dealer.

In a third bid, Scottish & Newcastle Breweries this week secured its £186m takeover of Matthews, Brown, the Blackburn-based brewer, although the acquisition has not yet been cleared by the Office of Fair Trading.

Details, Page 8

Capital victory after 70 years

By Ralph Atkins

A TEAM OF London accountants yesterday won a small victory for capitalism against the revolutionaries who overthrew Imperial Russia almost exactly 70 years ago.

By sending out nearly 3,300 cheques to Russian bond holders around the world, Price Waterhouse, the accountancy firm acting on behalf of the UK Government, has unfrozen assets held in a state of abeyance since the Bolshevik revolution.

However, yesterday was only the beginning. Next week the firm turns its attention to the 2,396 claims for property lost during the turmoil of the overthrow of Tsarist Russia.

The task is likely to prove an accountant's paradise. A price has to be put on the dramas and epics of a past generation. How many? What was the cost of a cotton mill or tin of condensed milk in 1917?

The cheques dispatched already are interim payments for British holders of bonds issued prior to November, 1917 and guaranteed by the Imperial Russian Government. Drawn from a Bank of England account, the sums being paid from a fund set aside by the Soviet Union in 1986, worth about \$50m.

The payments represent 10 per cent of the face value on bonds registered with Price Waterhouse before March 31. More is promised - perhaps up to 20 per cent of face value - when property claims have been tallied.

The smallest payment, worth 65p, has been sent to Cavongia, via Kyogle in New South Wales, Australia, in return for a single bond. The largest, in respect of several hundred boxes of bonds from an unnamed company, is worth about \$900,000. Others are being sent to three continents and numerous local councils and charities and at least one Reverend Mother Superior.

The property claims are based on 12,000 records compiled by the Foreign Office until 1951. Currently stored in the basement of Price Waterhouse offices in Victoria, London, they read like a tale of misery and desperation.

"All these files are in these files. There are people who lost everything - their families, their assets, everything," said Mr Leslie Cousins, the partner in charge of the operation.

On Friday, letter carefully catalogues belonging lost in fleeing from Russia. It includes two bottles of 1840 Cognac (costing 600 roubles) and seven and a half bottles of a mystified spirit (worth 375 roubles).

The main difficulty for the accountants is choosing what rate of exchange to use. Once Imperial Russia was overthrown, the rate of roubles to the pound rapidly plunged from the hundreds into the millions - making recent movements on the world stock exchanges look like a game of Monopoly.

Mr Tebbit has been keen to quit the job to take up various business directorships, which take effect this coming week.

However, after the recent turmoil over a successor, Mrs Margaret Thatcher persuaded him yesterday morning to stay on for a few more days to enable a smooth transition.

Mr Tebbit had felt that Mr Peter Morrison, Deputy Chairman of the party and Minister of State for Energy, could have taken over temporarily.

Mr Tebbit is shortly to take up a non-executive directorship on the board of Seair Holdings, Britain's largest retail group. He will also be on the boards of Rine Arrow, the employment services group, and BRT, the international services company.

Mr Thatcher had wanted Lord Young, Trade and Industry Secretary, to be the new chairman in addition to retaining his departmental responsibilities. But there was strong opposition from Lord Whitelaw, Leader of the Lords, and other members of the Cabinet.

As a result, Lord Young took the Prime Minister's word that he did not want the job. There has been intense speculation at Westminster about who will become party chairman. Among the names mentioned have been Mr George Young, Defence Secretary, Mr John Patten, Minister of State at the Home Office, Mr Peter Brooke, Paymaster General at the Treasury, and Mr John Cope, Minister of State for Employment.

THE LEX COLUMN

Selling BP to an Old Lady

It takes an adroit Chancellor to present as a triumph an exercise which has cost investors nearly a third of their money in the course of an afternoon. But then the handling of the BP stake has been marked by apparent adroitness throughout.

Shares bought in the depths of 1974 have been held throughout a 13-year bull market and unloaded right at the top. And, should the market fall back far enough, the Government has taken the option to buy the stake back at a profit of 50p per share.

The mood in yesterday's equity market allowed the new partly-paid stock to find its level remarkably quickly at a premium of about 20p to the old. The 70p floor provided by the Bank of England has evidently concentrated minds on the stock's speculative appeal. It appears that as much as a third of the US allocation may have been placed with US buyers yesterday.

The message coming from the Treasury is that the US underwriters deserved their losses. Combining the US and UK issuing methods, with the effect that stock is held for weeks without a guaranteed end-price, is so risky as to be a bull market excess in itself. But some of Mr Lawson's remarks, while merely knocking about in the political sense, smacked slightly of ingratitude. The London merchant banks, too, are enjoying the Americans' discomfiture but that is because it suits their commercial interests.

Finally, what of BP as a company? As things now stand the damage seems limited. The £13bn is in the bag and, if BP will not be the most popular name in the world's equity markets for the next year or two, the balance-sheet now leaves room for acquisitions to be financed through borrowing. Indeed, insofar as oil assets are available at stock market valuations the company's ambitions could be more easily achieved than before the market crash.

Markets

Until the past couple of weeks a rise of 67.8 points on the FT-SE 100 of a Friday would have seemed a pretty euphoric end to the week. After the recent falls and the market was still lower over the weekend - the gains on Thursday and Friday were

small. But at least they demonstrated a beginning of a return to confidence. The solution to the BP problem was one boost to morale and the expectation of a confident Autumn Statement from the Chancellor on Tuesday was another.

It would be wrong, however, to put too much weight on the thin ice of the market recovery just yet. Leaving aside the fundamentals a rally of any size could quickly bring out those sellers who failed to offload stock in the first plunge. And there is still a high risk that the fragile calm in the equity market could go badly wrong once more.

True, the economic outlook has not been badly damaged so far by the fall in the markets. If the international difficulties can be quickly and satisfactorily patched up the share market should be able to recover some way, with probably a consequent reversal in bond markets. The message coming from the currency markets, though, is much more gloomy. The dollar, which had held up reasonably well at the start of the stockmarket slide, has fallen sharply this week. Yesterday the end of both the week and the month should have had dealers squaring their books, thus hitting the dollar as short positions closed. But the dollar was weak again.

What foreign exchange dealers are worrying about - as they have been for months - is the US trade and budget deficits. Each day passes without signs from Washington that the budget deficit is being sorted out, indeed without much evidence that the politicians take the problem as seriously as the markets do, the dollar will keep falling. And there has been nothing to support the currency because the central banks' attempts at intervention are so half-hearted as to have no effect and international interest rate differentials are too narrow to help.

With those props taken away, only an agreement on the budget deficit will hold up the dollar. And the budget deal will need to make cuts of more than \$50m ordered by the Gramm-Rudman legislation, with commitments to further reductions later, too. If it is to calm the markets, if such a deal is tied up in the next week all it can be worth once more. But if the dollar is left to fend for itself it will fall sharply, eventually forcing the US authorities to raise interest rates to support it. And, after all, that is where we came in two weeks ago.

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Please remember the value of your shares may go down as well as up.

Continued from Page 1 BP spree

the flop. Some 270,224 people applied for a total of just 17.7m of the 2.2bn shares available. Remarkably, institutional investors - unnamed - also applied for 4m shares in the international offer.

All the rest of the stock was left with the underwriters, some of which were expressing relief that the shares had opened at a price higher than had been feared earlier in the week. The total national underwriting losses on the issue at yesterday's closing price are just over £700m.

It became increasingly clear yesterday that the decision by Mr Nigel Lawson, the Chancellor, late on Thursday night to proceed with the BP share offering had been reached only after a bitter confrontation with the overseas underwriters, notably those in the US.

Speaking on BBC Radio 4's Today programme, Mr Lawson said the problems with the underwriting had arisen in financial centres overseas, not in the City.

"I think that is a credit to the City of London, and it will certainly be something that I shall have to reconsider when I consider whether indeed in future privatisations we do want to have overseas underwriting."

Ford offers radical pay deal

BY CHARLES LEADGATER, LABOUR STAFF

FORD MOTOR yesterday offered its 32,500 manual workers a radical three-year pay and conditions package incorporating wide-ranging changes to working practices, the introduction of quality improvement groups akin to quality circles and the eventual harmonisation of the terms and conditions of blue-collar workers.

While two-year agreements have become relatively common in recent years to allow significant changes to working practices, three-year deals are still a rarity.

The company said negotiations on its offer of a 4% per cent increase in grade rates from November 29, followed by inflation-linked increases on that date next year and in 1989, would be dependent on the unions' agreement to discuss a set of far-reaching changes to working practices.

Mr Mick Murphy, the Transport and General Workers' Union national automotive officer and leader of the union side, said the company's proposals were "revolutionary". The unions will consult their members to decide whether any of the changes are negotiable before replying to the company on November 11.

The company's written offer

said improvements in productivity over the past 18 months as a result of the two-year agreement from 1985 allowed for cautious optimism. However, it warned the unions: "We cannot accept your contention that headcount reduction has gone far enough: we need to be more efficient to be competitive and that will inevitably mean further reductions in manpower."

The company outlined a set of measures to improve competitiveness, including breaking some of the traditional demarcation lines.

Skilled workers, who traditionally carry out maintenance tasks, may have to work on the production line as well, possibly in work teams where they would be completely interchangeable with semi-skilled workers.

A wide-ranging change to the role of supervisors, centred on the creation of "group leaders" to assist supervisors and coordinate teams of manual workers. The group leaders, who would be paid an additional 10 per cent on their grade rates, would be responsible for allocating work, operator training, and quality and production control. They would be recruited on the basis of competence rather than seniority and could

be semi-skilled workers. This would require skilled workers for the first time to accept semi-skilled workers as supervisors.

A joint commitment within national and local agreements to a sustained quality improvement programme, to include a statement of quality improvement objectives for each factory, quality discipline groups at every level of the company between managers, union officials and workers as well as measures to provide greater production continuity, possibly by forming labour pools to cover for unforeseen absences.

The company said it was prepared to establish a joint working party, incorporating white-collar and blue-collar unions, to introduce harmonised terms and conditions for both groups after 1990.

The working party's first aim would be to establish a common pay structure for all employees. Ford indicated it expected manual and white-collar unions to end their traditional separate negotiations.

The written offer disclosed that the budgeted hours for building a Fiesta, Escort or Sierra were more than 65 per cent higher in Britain than in Ford's West German plants.

Sun Alliance estimates its storm bill at £64m

BY MICK BUNKER

THE HURRICANE that ravaged south-eastern England two weeks ago will cost Sun Alliance, Britain's biggest household insurer, an estimated £64m in claims from property damage and business interruption suffered by commercial policyholders.

Stockbrokers' insurance analysts said the figures confirmed estimates that total insurance industry losses from the October 15-16 hurricane would be about £500m.

This means that among recent western European insurance catastrophes the hurricane is likely to rank second only to a hailstorm which hit Munich in July 1984 and cost about £510m.

Mr Ian McNeil, an insurance analyst with Warburg Securities, estimated Sun Alliance had 19 per cent of the UK's household structure insurance market, and about 10 per cent of contents insurance business.

On that basis, gross losses for the five big quoted non-life insurance groups will reach an estimated £280m. After allowing for money they recover from reinsurers, the net loss could be

about £190m. Sun Alliance said it initially expected to receive 80,000 household claims within the first 10 days of the disaster, which on past experience suggested a total figure of 250,000.

Mr Bill Scare, group personal insurance manager, said the group actually received 60,000 claims in the first seven days, now expected about 200,000 household claims altogether, costing a total of £50m.

Mr Scare said there had been few reports of losses of more than £25,000. The group has confirmed vehicle damage claims of £1.5m, but has conservatively estimated that this will rise to £4m.

Royal Insurance General Accident and Commercial Union said they were not planning to make public estimates of their losses until the week after next.

Analysts related to the insurers by cutting £70m to £80m from their pre-hurricane estimates of Sun Alliance's 1987 pre-tax profits. Forecasts now range from £180m to £225m.

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WEEKEND FT

October 31/ November 1, 1987

MARKETS • FINANCE & THE FAMILY • PROPERTY • TRAVEL • MOTORING • DIVERSIONS • HOW TO SPEND IT • BOOKS • ARTS • TV

Look behind you!

IN BIRMINGHAM the other day I enjoyed a full dress, strikingly well designed *School for Scandal* in the vast, airy, concrete repertory theatre. On my way back to New Street station I passed by the old Rep and studied the plaque in memory of Sir Barry Jackson, son of a wealthy local merchant, who founded the Birmingham theatre in 1913.

Stirred by this, I sought and found the stage door in a grim back street, and asked for the manager, and he led me into the pocket handkerchief stage, now the preserve of amateur companies but formerly the most famous regional platform in the land. Here were launched the careers of Peter Brook, Paul Scofield, Eric Porter, Margaret Leighton and Albert Finney. Here was a bedrock of our post-war cultural reputation. Magic time.

An adventurous repertoire, bold productions, faithful audience, tomorrow's stars. Especially today's regional theatre in Britain strives to retell the same. The consensus of an intimate, idealistic regional theatre movement is undermined by the untidily concrete civic barns we have built for ourselves by acute nervousness at a time when new methods of mixed funding for the arts have reached a controversial transitional stage.

This week, a West End-bound revival of *South Pacific* has opened in Plymouth. The Royal Shakespeare Company is on tour in Carlisle. There is Shakespeare in Stoke Newington, in York, Glasgow, Wythensay and in Manchester. There are new young artistic directors at the Leicester Haymarket, the Birmingham Rep, the Derby Playhouse and the Bristol Old Vic. The Arts Council has announced substantially increased grants for theatres in York, Leeds, Newcastle and Sheffield.

And yet all is far from well. Any week now the Arts Minister, Richard Luce, will announce an inadequate 2 per cent increase on last year's Arts Council overall kitty of £128m. About £27m of that will go to drama; barely £7.5m to drama outside London. We live still, in the arts more than in any other part of life, as two nations: London and the rest.

The mood of public expenditure stands still and cutback has made a mockery of the Arts Council's devolutionary ambitions. Instead, the big national companies have been punished, and everyone else has been told to increase sponsorship, for more local authority money, and generally "wise up" to what Ian Brown, the Arts Council's drama director, calls "different complexities".

It is all very well for the RSC to raise £1m in sponsorship from an insurance company. But the Birmingham Rep, to take a most favoured example of an Arts Council-subsidised regional theatre, can barely raise £200,000 this year on a city sponsorship drive that yielded £50,000 two years ago.

In the old days you beat your breast and hoped the Arts Council would listen. Now we know the Arts Council is powerless to help. And we know too, that this Government is not interested in the arts.

The refrain, a familiar cry of the arts lobby, must be credited to Sir Peter Hall, director of the National Theatre. In recent years he has berated the Arts Council for discarding its tetchy beggar's weeds and bawl and becoming "a willing instrument of Government".

In fact the speaker is Brahm Murray, joint artistic director of the Royal Exchange in Manchester, an outstanding regional theatre and more profitable corner. So well-established has the cartel been that until now it has even managed to survive Big Bang more or less intact.

Has taken BP to highlight its inadequacies. Even then, London's underwriting system might have coped more smoothly but for the clash of cultures with the overseas underwriters, who have had their fingers badly burned.

The front pages may have been full of underwriters making unattractive submissions to Mr Nigel Lawson with, curiously, nobody willing to stand up in public and be counted as a backslider. In sharp contrast, the British investment institutions who took on the bulk of the sub-underwriting commitment have made it plain that they have had no wish to wriggle out of their obligations.

This is stirring stuff. The insurance companies and pension funds up and down the land have been standing by their agreement. The pre-Big Bang spirit of *My Word is My Bond* lives on. Those shifty merchant banks may have been hiring teams of lawyers to help them exploit loopholes and escape clauses in the BP underwriting agreement, but the British long-term institutions are rock-solid in their dependability in times of crisis.

Yet, without wishing to seem cynical, I feel I should gently point out that over the years the institutions have done tremendously well out of the traditional underwriting system. Their wish to preserve it has a strong economic motivation.

The normal mechanics of the process are that merchant banks underwrite an issue early in the morning of "impact day", but with the help of brokers immediately set about laying off the risk to several hundred sub-underwriters, who are the various investment institutions.

ly embraced a radical devolutionary policy, robbing the metropolitan Peter (and Trevor) in order to encourage flyaway regional Pauls, to the tune of £5.5m. £2m of this went to Drama and £2.2m to the willing Regional Arts Associations.

Yet the Cork Report, an Arts Council-sponsored enquiry chaired by Sir Kenneth Cork, last year concluded that the effect of the strategy, in real terms, had been to restore the Leicester Haymarket and the Sheffield Crucible (two favoured clients) to 1978/9 levels of funding, while leaving most other subsidised regional theatres slightly less well off.

New realities are at work. In a speech in July, Richard Luce set out his (and the Government's) stall on the arts: the level of grant will increase by 2 per cent annually for three years at least; in addition to

New, controversial methods of funding for the arts are at a critical stage. Michael Coveney examines their impact on Britain's once glorious regional theatre.

that amount, incentive funding will be available to mobilise more private sector money. Most offensive to the arts lobby was the Minister's philosophical homily attacking the "welfare state mentality" and lauding the performer's need to attract customers as the chief test of his or her ability to succeed.

No mention here of anything approximating to the old Royal Court "right-to-fail" plea (made by the late, great George Devine in the mid-1950s), or even of the educational or moral value of art in the citizen's life that was a cornerstone of Sir Barry Jackson's credo. In this statement of Thatcherite radicalism there seemed embedded a twisted knife of revenge: on the 1980s, on the "art is good for you" school of thought, on the very impulse behind the century-old fight to establish a National Theatre.

The rep movement was a high-minded Edwardian reaction to the commercial theatre which it caused a theatrical pothole that has survived for 80 years. This Arts Council is anxious to obliterate it, but not necessarily for the right reasons.

Jackson's Birmingham Rep, like the tea heiress Miss Annie Horniman's Gaiety in Manchester, was a complementary operation to Vedrana and Grassville-Barber's 1904 repertory initiative at the Court in Sloane Square, the producing cradle of

Shaw, Galsworthy and John Galsworthy plays.

From these roots grew everything worth having in the contemporary British theatre: engaged playwrights, the Old Vic and Stratford Memorial theatres leading to the National and RSC; an intelligent post-Victorian acting tradition; new standards in interpretation and design. By 1933 there were 14 reps in Britain; by 1962 about 60. These are today's subsidised houses. The provincial touring barns have meanwhile declined.

In broad terms, it is now the rep standards that sustain our crumbling provincial theatre network. In the past 10 years, local authorities and sponsorship drives have restored to the nation such magnificent dramatic temples as the Theatre Royal in Bath, Plymouth and Nottingham, and the Bradford Alhambra. But these houses are blotting paper, not fountain pens.

Luke Rittner, the Arts Council's secretary general with a background in art sponsorship, points to this new network with evangelical pride. But we must ask: do these theatres receive subsidised product from middle range companies that are an almost anomalous hangover from a previous nurturing ideology?

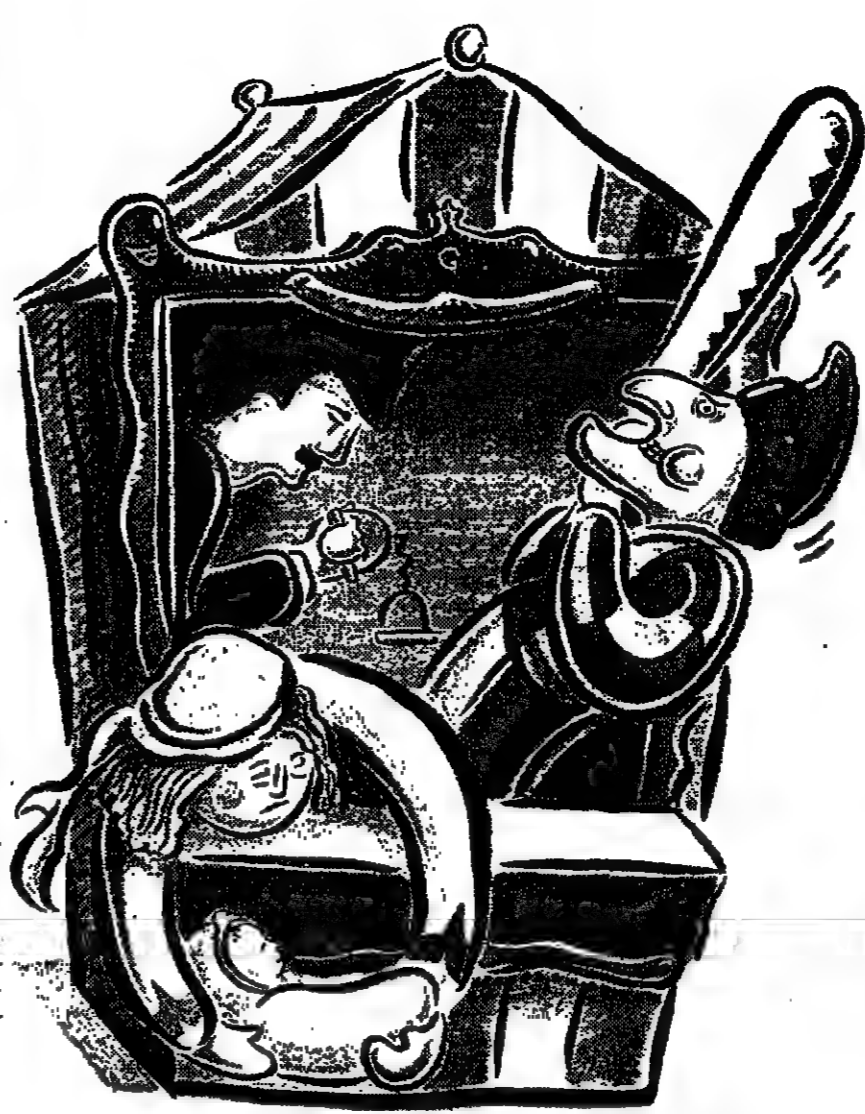
The Arts Council is now pragmatic and entrepreneurial where once it was, or declared itself to be, creative and responsive. This fundamental change of role, as yet barely perceived, could cause untold damage to our theatrical well-being. Whereas the Cork Report imaginatively proposed six national theatres to be established outside London, the idea has been modified and crushed into a "consensus" philosophy of shared productions in a given area. Ian Brown's proud prototype in the south west, centred on the Theatre Royal, Plymouth.

The Royal with an annual Arts Council grant of £233,000, is a credit of service station to the south west of England, with no clenching identity of its own. It operates merely as a building amenity with commercial potential. That, you are supposed to feel, will do. It is the apple of Ian Brown's eye.

There is also a new buzzword: parity. This means: local authority funding, central government funding for the arts.

Brahm Murray in Manchester represents the repertory ideal, now overtaken, of Jackson and Horniman. His colleague, the late Michael Elliott, turned down offers of the deputy directorship at the National Theatre in 1962, and in 1963, in order to head up the RSC TV Drama, in order to inaugurate the Exchange, Regional; theatre matters.

Murray feels betrayed. Since settling in the Royal Exchange arena 10 years ago, the company has played to 63 per cent capacity, raised £35,000 pounds in local and private funds for a second auditorium, and co-operated with Mobil Oil on a conspicuously successful new playrights competition. Everything, you might assume, is rosy. But Murray and Brown could disagree. The work has been consistently interesting, often exceptional, bolstered by the artistic contribution to Manchester life of such crucial theatrical figures as Ian McDiarmid (a top line renegade from the RSC), Vanessa Redgrave, Janet McTeer (tomorrow's Vanessa Redgrave), Tom Courtenay, Edward Fox, Sir Michael Hordern, Julie Walters, and the most promising new directorial talent in British theatre and opera, Nicholas Hytner.



Glyn Goodwin

There is something wrong in our national and cultural priorities when Brahm Murray states that in order to survive at all, the Exchange will either have to close for six months of the year or discover a millionaire in the mould of the RSC's Stratford Swan Theatre American sponsor.

The Swan happened because the RSC felt a need to invent it. That is how theatre art comes about. Not by Arts Council edicts or policy. "We are more interventionist now," said the spokesperson for the newly restructured Arts Council touring department.

To be fair, the Arts Council touring department is now actively involved in upgrading fringe groups like Cheek by Jowl (camped-up, small-scale classics) and Pomba (new black writings to middle-scale status). This interventionist could yet have significant impact.

In the various instances of the Chester Gateway, the Duke's Lancaster, the Worcester Swan and, most notably, the Derby Playhouse and the newly emerged leadership of Annie Castledine, the

withdrawal of central Arts Council funds has proved, arguably, beneficial.

But what about that favoured horticultural display? Clare Venables, artistic director of the Sheffield Crucible, was a beneficiary of RSC-Mogery. She declares that most of the extra money has gone on a Theatre-in-Education programme (highly successful) and inflation. She believes, too, that increased funding from local authorities and commercial sponsors will simply dry up if central Arts Council funding stops still. She gets very angry.

At the Birmingham Rep great things are expected of John Adams, an impresario in early middle-age who has, unfashionably, made a classic progression from inveterate touring company (Paines Plough) to modest regional outpost (Bolton Octagon) to second city theatre-blockbuster.

Birmingham Rep needs £200,000 over and above its combined Arts Council and local authority funding of £800,000 to carry out essential improvements both on and off stage. But Adams, nobody's fool, does not regard a standard Arts Council grant

as a disaster. He could yet fight one of the most fascinating rearguard actions for regional theatre.

In the early 1960s, the Nottingham Playhouse was designated the vanguard regional theatre, attracting the participation of John Neville, Peter Ustinov, Frank Dunlop and, subsequently, Stuart Burge and Jonathan Miller. In the mid 1970s, its resurgence under Richard Eyre was a necessary response to a fossilised Royal Court policy. It was in Nottingham, with plays by Trevor Griffiths, David Hare, Howard Brenton and Ken Campbell going up the motorway for want of London interest, that the vital continuity of our national theatre - and, as it happens, National Theatre - was kept going. Playhouse is in the artistic doldrums, but it serves a community, is trying to balance its books, and will rise again. Its ebullient activity in the mid 1970s was matched only by the Liverpool Everyman under Alan Dossor, whose unforgettable acting squad included Bernard Hill, Trevor Eve, Jonathan Pryce, Antony Sher, Nick Stringer and Barbara Dickson, with writing by John McGrath, Willy Russell and Alan Bleasdale.

Most of the names in the paragraph above have been involved in leading British films, TV series and stage productions of the past decade. Nobody in London, after drama school, supported them. No-one in the Arts Council gave them bursaries. They learned their trades and made their marks in the regional theatre.

"Twas ever thus. No wonder that Richard Eyre, artistic director designate of the National Theatre, acknowledged his artistic roots - in Edinburgh, Nottingham and Cambridge - by avowing a policy of courtesy towards the regional theatre in an encouraging interview he gave recently. At least the National under Richard Eyre and David Aukin intends to heed the regions. Brahm Murray in Manchester welcomes this new regionalism, seeing a possibility of London exposure where none recently has been forthcoming except in commercial, frothy-farcel terms.

David Aukin was, until recently, at the Leicester Haymarket, completing a West End and transatlantic deal on *My Word is My Bond* while the theatre itself ran into £350,000 worth of debt. The success of *My Word is My Bond* has saved the Haymarket which, under the new artistic directorship of Peter Lichstein, is preparing to gamble yet more of its subsidised fortunes in a peculiar liaison with the London office of Broadway impresario David Merrick.

Cy Coleman's *Nothing But the Truth* will contain a £250,000 Merrick investment and a chance of make or break for Leicester. The idiosyncrasy of this gamble - its unchallenged by Arts Council approval of flirtation with commercial imperatives - could seriously damage other, perhaps equally curious, Leicester commitments to European and American avant garde manifestations.

Meanwhile, Leicester has played to under 50 per cent capacity for extremely worthwhile revivals of a rare Tennessee Williams and a screwball Broadway farce. This will not go down at all well with any Luce-talking bottoms-on-seats wailers in the Arts Council offices at 105 Piccadilly, in London. But can we not afford - should we not show respect for the money - such a theatre with such a programme?

Adventure in any direction, even the wrong one, will always ask a price. Unless the Arts Council, on the taxpayer's behalf, is prepared to countenance and then perhaps meet that price, we shall be left with a theatre bereft of civic pride, shorn of international significance and deprived of any social value whatsoever. Devolutionary apparatuses must be mindful, as they go from meeting to parting, of what it is they are actually proposing to devolve. For sweetest things turn sourer by their deeds; Lilies that fester smell far worse than weeds.

The Long View

Stardom could prove unfortunate

The BP issue has brought old sub-underwriting practices into the limelight. Barry Riley suggests that they may prove incompatible with new City rulebooks



This applies to primary and secondary (like BP) offers for sale but, just as importantly, to rights issues of new shares by listed companies, a means by which particularly large sums have been raised to finance cash takeovers during the past few months.

If the sub-underwriting of an issue is not tied up by lunchtime it is likely to be in trouble. There is no time available for inspection of elaborate documentation or the undertaking of detailed analysis. It is very

as-and-when basis out of capital account rather than through much a matter of take it or leave it.

Generally the institutions take it, because they know from past experience that the chance of an issue failing is very small. The standard 1 per cent sub-underwriting fee has been shown, by academic studies, to be roughly twice as large over the years as it should have been, to compensate for the actual risks. In practice the failure rate of issues has proved to be remarkably low.

Sub-underwriting has therefore become a kind of game, be distributed by securities firms to their favoured clients. An institution which turns an underwriting down may not get offered the next one.

In the pre-Big Bang days of fixed dealing commissions, sub-underwriting was a means by which big clients could have some of their outlay returned. Corporate brokers, led by Canova, thrived on this sort of arrangement. Merchant banks' investment departments have used their ability to pass on lucrative underwriting commissions on a preferential basis as a way of strengthening their position in the pension fund management business.

Why have companies, which pay the underwriting commissions, put up with such practices? Corporate treasurers are not normally loath to squeeze the City if they see an opportunity. Perhaps they have failed to understand the intricacies of the system properly. And perhaps also they have been persuaded that it is a painless way of paying for corporate broking services.

How much better to pay an

regular fees which would affect profit and, worse, which would come out of the finance department's budget.

Even so, a few companies - including Prudential Corporation, one of the very investment institutions which have profited from sub-underwriting - have chosen to launch rights issues on a deeply discounted basis, which avoids the need for underwriting.

And the Government, spurred by criticism of its outlays for the underwriting of previous privatisation offers, has required underwriters to bid more competitively.

The merchant banks only retained tiny underwriting fees for the BP issue. The British sub-underwriters - more than 400 of them - had their commission cut down from the normal 1 1/2 to 1 per cent. These changes were clear evidence of the underwriting system crumbling at the edges. Even before the BP crisis, the traditional arrangements had lost their charm for the merchant banks and for the stockbroking firms which they now own.

With the abolition of the Stock Exchange's fixed commissions structure a year ago, there has been no call any longer for a system for giving what amounted almost to backhanders to big clients.

What is more, the securities firms are faced with the need to comply with elaborate new rule-books involving concepts such as "best advice". It would be hard to square the traditional underwriting system with the new regulations.

This is because on the one hand corporate clients have generally been overcharged, and on the other because some investment clients have been given favourable treatment. And if these practices are ruled out, the traditional system becomes unattractive for the merchant banks to operate.

There has already been an open row between the merchant banks and the institutions over pre-emption rights - that is, existing shareholders' right to enjoy first refusal of any new issue of stock by a listed company.

Now the BP crisis has underlined this parting of the ways. Big Bang has indeed been celebrating its birthday.

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MARKETS

Keeping your feet on the trampoline

WOULD HE, wouldn't he? America's fundamental problem of a budget deficit and a weakening dollar served merely as a backdrop to London's over-riding question last week: whether Chancellor Nigel Lawson would pull the impending £7.2bn BP flotation.

As long as the potential strain on market liquidity was unresolved, share prices oscillated wildly. Monday saw the sharpest fall: a 111 point drop in the FT 100-Share Index - but even then the market had attempted a couple of rallies on thoughts that BP might be withdrawn.

The next three days saw less dramatic changes. There was a net 19.2 point gain, a 44.9 point loss, then another 23.6 point advance - but prices swung substantially during trading sessions as market-makers and investors seized on any selling opportunities.

By Thursday night - just 16 hours before the deal was to be announced - the FT 100-Share Index had fallen 111 points from its peak of 2,589.25 on Monday. The BP float would go ahead but with the Bank of England offering to contain the potential losses which underwriting institutions inevitably face.

The compromise was a fairly happy one. Should share prices plunge again and every underwriter purchase the party-paid shares at 70p, the maximum cost to the Bank would top £15bn; the Government also continues to receive its £2.6bn from the first payment on the issue.

The Bank's intervention offer meant that over half the funds stumped up by institutions for BP - liquidity was at a fairly low level ahead of the current crisis - could be reclaimed.

Earlier fears that the forced sale of BP shares by underwriters could produce a stock overhang were largely dissipated; the Bank will not feed any stock back into the market for at least six months, unless the party-paid price recovers to top the issue level of 120p.

The market's initial reaction was rather relief. By noon the

FT-100 Share Index had recovered almost 87 points - adding some £15bn to share values - while BP jumped from 259p to 285p.

As BP's 2.30 opening deadline approached, Footsie suffered a lunchtime pause. But with everyone singing the yield advantages of the party-paid shares, they opened at 88p - a 25 per cent premium to the Bank's offer of intervention price, and in fairly heavy trading had eased back to only 85p by the close.

The cataclysmic state of the

All of this left the index down a modest 45 points on the week at 1749.8 - 694 points below its 1987 high, and just 70 points above its opening 1987 level.

The more fundamental US problems remain unresolved; and until the extent of America's sneeze becomes clear it is impossible to judge what kind of cold UK companies are going to catch in terms of 1988 profits.

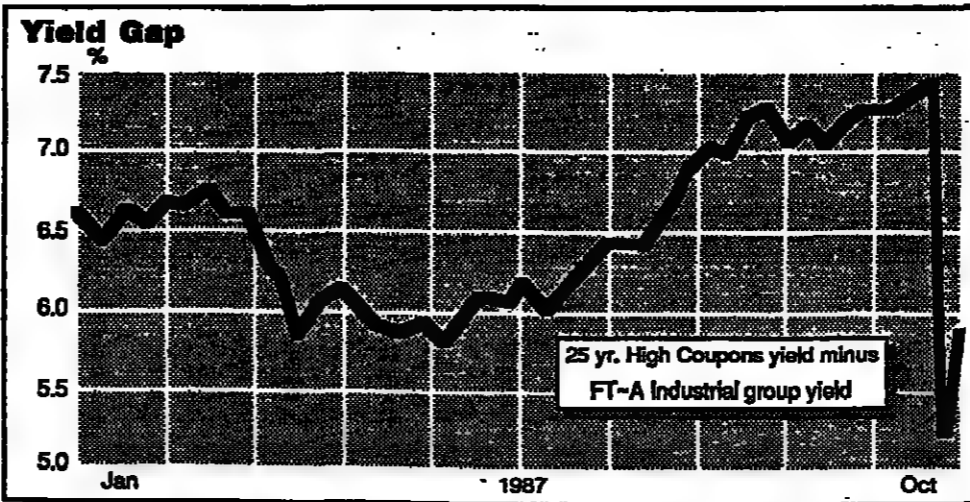
Most market-watchers are still no wiser than they were a week ago. Warburg Securities argues: "It appears absurd the UK is down as far as Wall Street."

The US economy is likely to show little growth over the next few years and US corporate earnings could decline in 1988. UK growth is likely to be in the 2-3 per cent area with 10 per cent savings growth.

Wood Mackenzie concurs: "The implication is that UK equity and bond markets will outperform the US over the next few months."

The UK yield gap has narrowed considerably. The gilt market advanced, pushing the yield on high coupon longs to under 8.2 per cent. The difference between the return on long gilts and that on the FT-500 Index has dropped from over 7 per cent at the end of September to about 5 per cent.

The cataclysmic state of the



financial markets is throwing up curious contrasts with the historic figures reported by some companies.

ICI was the prime example last week. The company turned out a record third quarter profit, taking the figure for the first nine months to £1,004m before tax - a 38 per cent advance on the same period of 1986.

Business was encouraging, said ICI, and in any other conditions the figures would probably have generated a warm response.

Instead the market took a fresh look at ICI's US exposure, noted the company's cautious statement about the impact of current upheavals, and marked the shares 24p lower at 89p. Ahead of the collapse they were trading at over £16.

Marks and Spencer fared considerably better, despite disappointing interim figures of £171.7m (£188m) pre-tax. Clothing sales were dull and food

showed a small deceleration in sales growth.

The effect of the storms has yet to be felt. But any protection against world recessionary forces is a share, and by Friday afternoon the shares had eased only 5p to 207p over the week.

The market collapse leaves existing predators with easy pickings: Matthew Brown succumbed to Scottish and Newcastle's £180m cash or paper offer by the first close, and directors of S and W Berisford are offering no guidance to shareholders on the 400p cash offer.

But will they be worth the money? Engineering group TI decided the prospective downturn in the US economy meant its £144m purchase of a major factorer Bundy could not be squared with its fiduciary duty to shareholders.

Fearson aborted its plan to sell back a 16.9 per cent stake to Westpool Investment Trust; and

the TSB raised a question-mark over its plan to acquire merchant banking group Hill Samuel for £777m.

Takeovers have not been the only casualty in the current turmoil. New issues on ice range from Thomson and Company, the fund management group, and trailer rental group TIP Europe, to Sotheby's Holdings flotation.

It will take a substantial market recovery before many of the 50-strong chain of outstanding rights issues are out of the woods, although many of these are small.

Next week sees the close of the £254m Ladbroke issue, where shares are currently trading at 342p against a rights price of 370p, and Kleinwort Benson's £145m call - 450p against 450p.

At one stage they were below 400p. But not everyone has the Bank of England at their elbow.

Nikki Tait

COMPANY NEWS SUMMARY

TAKE-OVER BIDS AND MERGERS

Company	Value of bid	Market price	Price paid	Value of bid	Market
Abertis Const.	350	325	340	57.92	Abertis Ind.
Alchem & Son	120	111	97	34.88	Charterhall
Berisford (S&W)	400	375	340	787.00	Ames. R. Funds
Benson (C.D.)	446,667	528	548	87.00	Adv. Europa
Brown (M&L)	669	652	715	165.34	Syst. & Networks
Equity & Law	455.6	445	350	457.42	Cyprusair Int. M&A
ES&C	400	380	300	14.00	TD Energy Res.
Greenwich Trust	120	108	116	100.00	Aurora
Hill Samuel	810	755	684	777.00	TSB
ICI	41	41	39	29.42	Impact Ind.
ICI Signet	144	139	119	245.00	Perpetual
Procter & Gamble	155.37	125	153	18.94	Chelton
Stewart Wrightson	180	163	137	38.97	Enlight Trust
Swire	417	318	300	156.15	Wills Faber
Tech. Comp. Ind.	255.9	458	478	14.67	Baynes (Charles)
Wm Morris & Nixon	109.33	87	91	13.08	Price & Earth R.

*All cash offers. †Cash alternative. ‡Partial bid. §For capital not already held. Unannounced. ¶On loan price 30/10/87. ††At discretion. ‡‡Shares and cash. §§Related to NAV to be determined. ¶¶Loss stock. §§Suspended.

PRELIMINARY RESULTS

Company	Year	Pre-tax profit	Basic EPS	Diluted EPS
Amesbury Group	July	1,280 (751)	18.0 (6.0)	1.9 (-)
Benson & Pount	June	2,700 (1,500)	13.5 (9.1)	7.0 (6.2)
Bridport Group	July	2,240 (2,840)	13.5 (19.1)	7.0 (6.2)
British Group	July	1,300 (1,140)	20.9 (13.6)	2.6 (4.2)
Cooper Fredrick	July	3,950 (2,030)	11.9 (5.3)	2.3 (-)
Deper	July	776 (43.1)	8.5 (-)	2.3 (-)
Fraser & Neave	June	15,440 (13,330)	29.3 (-)	8.6 (7.6)
ICI	Sept	313,000 (256,000)	87.0 (66.8)	- (-)
ICI City Hedges	July	17,260 (14,150)	24.0 (25.8)	9.0 (9.0)
ICI Trust	July	304 (-)	4.4 (-)	- (-)
Jefferson Street	Sept	27,000 (9,700)	3.2 (6.4)	0.6 (1.7)
Kent John	July	859 (1,100)	3.2 (6.4)	0.6 (1.7)
Lacus Industries	July	114,500 (91,600)	61.1 (52.0)	16.0 (13.0)
LWT	July	25,020 (21,600)	50.7 (42.9)	28.5 (18.1)
Lysander Pet	March	79.1 (264.1)	6.5 (7.0)	6.5 (6.2)
Majestic Invest	Sept	2,480 (2,330)	24.6 (20.8)	11.5 (10.0)
McNichols	July	27,600 (15,180)	16.7 (12.2)	1.6 (1.6)
Micromed Int'l	April	1,670 (2,280)	16.2 (9.7)	3.0 (2.0)
Micromed Int'l	July	3,010 (1,820)	20.2 (10.8)	3.1 (2.5)
Pratt Holdings	June	5,750 (4,230)	31.9 (24.8)	13.2 (-)
Smart J & Co	July	1,430 (1,360)	9.5 (9.1)	5.2 (4.7)

INTERIM STATEMENTS

Company	Half-year	Pre-tax profit	Basic EPS	Diluted EPS
Airflow Structures	Aug	983 (303)	1.0 (0.2)	- (-)
American Energy	June	55 (73.1)	1.0 (-)	- (-)
Anglo Leasing	Sept	2,560 (2,110)	1.0 (-)	- (-)
Automotive Products	June	3,700 (3,900)	- (-)	- (-)
Bentley	June	605 (109)	- (-)	- (-)
Bentley	June	345 (345)	- (-)	- (-)
Bentley & Hawkes	June	186 (1,400)	- (-)	- (-)
Brown N.	Aug	4,500 (1,030)	3.0 (2.2)	- (-)
Burton & Brewster	Sept	1,420 (1,700)	0.6 (0.6)	- (-)
Central & Sarawak	June	2,100 (1,080)	1.0 (0.5)	- (-)
Chelton	July	97 (9)	5.5 (5.0)	- (-)
Chesterfield Prop	June	3,020 (3,870)	2.0 (2.0)	- (-)
Clarkson Horace	June	1,340 (1,520)	2.0 (2.0)	- (-)
Comac Group	June	155 (155)	- (-)	- (-)
Comac Group	June	859 (830)	- (-)	- (-)
Dunlop House	June	222 (38.1)	- (-)	- (-)
El Oro Mining	June	945 (629)	1.0 (1.0)	- (-)
El Oro Mining	Sept	1,080 (542)	1.0 (1.0)	- (-)
Exploration Co.	June	1,220 (711)	0.8 (0.8)	- (-)
Forward Group	July	585 (420)	1.6 (1.3)	- (-)
FR Group	June	10,100 (7,200)	1.7 (1.7)	- (-)
French Connection	July	2,500 (1,284)	1.7 (1.7)	- (-)
Grand Central Invest	June	58 (13)	3.0 (3.0)	- (-)
Hansen Prop. of London	June	58 (13)	3.0 (3.0)	- (-)
Jackson Group	June	574 (480)	1.0 (0.6)	- (-)
Marks & Spencer	Sept	171,700 (155,000)	1.5 (1.4)	- (-)
Melbourn	June	384.1 (384.1)	1.6 (1.6)	- (-)
MTI	June	2,000 (193)	0.5 (0.5)	- (-)
Northway	Sept	65,600 (65,600)	2.3 (2.3)	- (-)
Rowe Evans	June	690.7 (493)	1.7 (1.5)	- (-)
Sherwood	Sept	700.7 (193.3)	1.0 (1.0)	- (-)
Underwood	July	1,010 (1,000)	1.0 (1.0)	- (-)
Upson E	Aug	172.1 (251.1)	2.7 (2.4)	- (-)
Wm Morris & Nixon	Aug	1,600 (1,210)	0.9 (-)	- (-)

(Figures in parentheses are for the corresponding period.)
*Dividends are shown net of tax per share, except where otherwise indicated. L = loss. T = three quarter figures.

RIGHTS ISSUES

OFFERS FOR SALE, PLACINGS AND INTRODUCTIONS

Dorcon Composites International plans to return to the London Stock Exchange early next year at a market capitalisation likely to exceed £100m.
Fairway is to come to the USM via a placing of 2.2m shares.

"SWITZERLAND—Banking, Finance and Investment"

The Financial Times proposes to publish this survey on Tuesday, December 15, 1987

Subjects to be covered in this survey include:

- Commercial banks: earnings and potential policy changes
- Foreign banks' role in the bond and share markets
- The function of finance companies
- SOFFEX—the Swiss Options and Financial Futures Exchange Bonds—domestic and foreign markets
- Insurance—good domestic results could lead to renewed interest in expanding abroad
- Pension Funds—introduction of new performance indices
- Venture capital—its organisation in Switzerland
- Bank policing and secrecy

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Still they keep coming

IT WAS A phenomenon of the bull market: the i.c. coming to the USM and placing its price shares in the hands of a fortunate few who saw them soar to a substantial premium in first day dealing.

Some things do not change, it seems, despite world markets in a state of spasms. Tubular Exhibitions, a company which makes crush barriers and organises exhibitions, had its shares placed last week on an historic price ratio of 85. On Monday, its shares went to a 20 per cent premium and have not faltered since.

Other companies have been more cautious. Two big new issues have been postponed until next year, and many others until the markets calm down. But Fairway and the Company of Designers went valiantly ahead with their plans to float this week.

"Preparations for the issue were so far advanced, and had exhausted so much management time," said Kenneth Bavin, the finance director of Fairway, a printing company, "that we couldn't allow market conditions to cancel the flotation. We didn't want to lose the momentum."

As with the Company of Designers, a supplier of design services ranging from architecture to engineering, it was argued that the long term advantages of a stock-market quote far outweighed the short-term timing problems. But in both cases, the price of the new shares was slashed to make them more attractive to investors, and more shares were issued to raise the same amount of money.

THIS WEEK'S FALLS

The following table shows the percentage change in the FT 100-share index and its constituents over the past week. The FT-SE index is also shown.

Company	Price	% change	1987 High	1987 Low
FT 100 Ind.	1749.8	-1.4	1726.1	1288.5
ASDA-MFI	177	-7.2	226.5	143.5
Alm-Lyon	345	+1.1	471	296
BICC	385	-11.3	436	269
BOC	337	-7.9	559	328
BTR	249	-5.3	374	235
Buchanan	425	-5.3	589	268
Blue Circle Ind.	359	-4.4	579	289
Buena	252	+8.1	329.4	215
British Gas	152	-3.4	288	106
BP	387	-7.3	416	238
British Telecom	287	-4.4	337	208
Coal Swire	236	+5.3	281	119
Coverdale	387	-3.1	535	384
GECC	188	-4.7	251	144
Glen	417.6	-4.4	439.4	338.4
Grand Met	394	-4.6	605	348
GKN	278	-3.4	434	244
Goldman	257	-3.1	389	248
Hanson Trust	137	+4.2	195.4	116
Hawker Sid	429	+4.7	630	377
ICI	419.4	-4.8	616.4	388
Lacus Ind.	516	-2.1	795	465
Marks & Spencer	288	-3.8	289.4	288
Northway	384	-4.8	794	498
P&O	518	+14.6	776	425
Plenary	152	-4.8	258	136
Royal Ind.	421	+1.9	585	348
Tate & Lyle	638	-3.3	844	568
Thorn EMI	478	-3.3	639	434
Thames Water	285	-2.4	293	179
FT-SE 100 Index	1749.8	-1.4	1726.1	1288.5

By contrast, Allied Restaurants, Paragon Communications and Blazer have all delayed their flotations for a week.

Junior Markets

Propeller and Sempermore are not coming to the Third Market just yet. Thornton & Co, the fund management group, and the London Forfeiting Company will review the situation next week.

London Forfeiting, an export credit company currently a subsidiary of British & Commonwealth, planned to join the USM on November 11. It would have secured a market capitalisation of £150m and intended to raise between £30m and £50m of new money, a record for the junior market.

"We want stability before we float," said Stathis Papoutas, managing director, "but present market conditions are likely to generate a number of interesting new opportunities for the company."

It is difficult to see that this will be the case for Thornton, which would have had a market capitalisation of £80m. Prior to the

"Black Monday", it had funds of £1.2bn under its management. Much of this has been eroded, but David Pincus, finance director, remains sanguine. "We're strong, and we will survive."

At least these companies had the opportunity to reconsider. Lloyd Thompson, an insurance broker, and Stanhope Properties, did not. First dealings in Lloyd Thompson shares were scheduled for Friday October 16, the day of the hurricane, but were postponed until Black Monday. Despite this unlucky timing, the shares mustered a small premium before stabilising at the 170p issue price, but low which they have not fallen since.

Stanhope was not so lucky: a spectacular debut was followed all too soon by an equally spectacular crash. On Friday the shares overtook Mrs Fields as the largest company on the USM in terms of market capitalisation. Its shares reached 317p, well above the striking price of 250p.

On Thursday night this week, however, the shares stood at a lugubrious 183p, in line with analysts' estimates of the company's asset value.

As much as a feature of the bull market as the new issue was the "special situation" company, where speculative share trading was exploited by entrepreneurial management to build up a business in a very short space of time. These, according to Gordon Gove, have suffered particularly badly on the back of a sea-change in investors' attitudes to speculative trading.

Local London Group and the Marina Development Group, two innovative property companies, are prime examples of the special situation, and both have seen their share prices buffeted in the last fortnight. But both are relatively small, having made acquisitions just before the crash. The rights issues to finance these are still outstanding, and are bound to flop - but they are underwritten and the companies will receive the cash notwithstanding.

"We are bullet-proof," said David Heilmann, MDG's chairman. "That might sound a hubristic statement, but we've completed our acquisition and have not cash in the bank. That's not a bad way to be under present conditions."

David Waller

Bull profits in a bear market

NEXT WEEK the corporate sector will probably see the old chicken coming home to roost: the disarray in the US economy, hitting both share prices and the outlook for profits, is likely to combine somewhat unconformably with decisions made in the bull market.

Monday brings the interim figures from Garry Weston's ASSOCIATED REFINERS FOODS. Analysts say that the ARF half-time profits are likely to be unremarkable - though estimates of £25m to £28m before tax, against a reported £27.2m last year, seem praiseworthy enough in the context of a £18m cash mountain.

What the market will be watching for, in a world sort of way, is the result of ARF's 40p share cash offer for S&W Berisford, the UK best sugar refiner and commodity trader. They feel that Weston, who paid £18m for 7 per cent of Berisford in May but who is essentially a cautious man, was pushed into the full-scale bid when Tate & Lyle, a former contender, sold its 16 per cent Berisford stake to the Chicago-based Pricer family and to Berisford directors for £100m in September.

In this week's stock markets "ABF" would get Berisford. On the one hand this would remove the drag imposed by static, or prospectively falling interest rates on its trading performance; on the other ABF is now paying a high price relative to the market, and given the chance, what it might prefer to do is to sit on its cash and wait for the roof to fall in elsewhere. The first closing date for the Berisford offer is next Thursday.

Also on Monday is the age of ARACO, a rising financial conglomerate which has built a rapid physical growth profile on acquisitions for its own paper. Its many shareholders may be asking next week what Abaco has to show in the way of organic growth prospects.

Tuesday brings another financial sector AGM, this time hosted by MAI, which has expanded from money and securities broking and foreign exchange into advertising, reversing the concept of the Saatchi's unwelcome overtures to Midland Bank. MAI is highly exposed to US money markets and its recent experience here might be a word or two.

On Wednesday, there will be pressure points of one sort or another on two major British-based international companies, both of which have been a dramatic re-rating in recent years.

RESULTS DUE

Company

MARKETS

The world on Tokyo's shoulders

AN EERIE calm and even a bit of optimism descended on world stock exchanges yesterday. The world's largest market, Tokyo, has appeared most resilient through the last 18 days' chilling illustration that the world is one.

The plunge of the dollar, which had severely shaken markets in Europe and the Far East, took a pause and traders appeared willing to wait to see if the major economic powers could muster the political will to sort out their problems and avoid a major recession.

"We are at half time," says Nicholas Knight of James Capel in London, "and the second half will determine whether we have the second crash of 1987."

In the past two weeks world equity markets had lost about 18 per cent of their value by Thursday's close. With the buoyancy of Tokyo removed the rest of the world fell by 21 per cent. The difference is more striking when compared to highs for the year, with Tokyo pulling the world up by five percentage points, from 28 to 33 per cent off.

The strength of Tokyo confounded many forecasters who believed that Japanese shares were vastly overvalued. For months before the crash, foreign pundits had expected the highly-valued Tokyo market to lead a world equity shakeout. In the event it was the US that led the way, with Tokyo lagging well behind.

Yet how long can the world's largest stock market continue to hold out against the trend else-

where, and what happens should Tokyo join in the collapse?

To date the sellers in Tokyo have been foreigners, stockbrokers and short-term investment trusts. The heavy-hitters, Japan's big institutions and investment trusts who own about 70 per cent of shares, have remained on the sidelines.

With the TSE's average prospective price/earnings ratio still at a lofty 45 or so, market watchers worldwide continue to cast a nervous eye on Tokyo.

The question is whether, or when, the big institutions will move out of the market. This would cause a crash of colossal proportions in Japan. "It's almost too frightening to think about," says one foreign broker in Tokyo.

Those who argue that Tokyo will remain resilient say that foreign selling, which has been a major factor in the decline, is virtually played out. Foreigners now hold about 35 per cent of the Tokyo market, compared with about 6 per cent last year. They could continue selling at their current rate for another six months or so, but their position in the market is now so small that they are unlikely to affect the thinking of Japanese fund managers.

The recent instability of the dollar works both ways. If the

dollar plunges, the chaos could cause the big institutions to liquidate equity holdings to compensate for dollar-based losses abroad.

On the other hand such instability could well induce Japanese institutions to keep more

money at home to avoid the currency turmoil, though this could have a disastrous effect on world capital flows. Real trouble in the currency market could also lead Japanese government officials to lean even more heavily on the institutions to stand firm.

So far the Ministry of Finance has quietly informed institutions and stockbrokers that it expects them to hold on and help defend the market against a tumultuous collapse. This in turn has engendered some resentment on the part of money managers, who grumble that the government is using them to ensure that the upcoming sale of shares in Nippon Telegraph and Telephone (NTT) goes off successfully.

As Tokyo has not fallen as far as other markets, institutions could still sell many stocks at a profit. As Japanese accountancy rules now require the big funds to value their investments every six months at market prices, not cost, there is more pressure on managers to consider profit-taking.

On a six month view, the funds have to start making some money sooner rather than later. Will their move to take profits start another calamitous round of selling? The answer to that depends on how much confidence one has in Japan's ability to

control its own markets and institutions. Nicholas Knight, of James Capel, does not believe that a further fall in Tokyo would necessarily cause other markets to come unstuck, simply because Tokyo has lagged behind in the fall. But if the decline rushes past the 20 per cent or so limit, then it could easily signal round two of the great crash of 1987.

Tokyo's insulation is not shared by its neighbours in the

Far East. Singapore, Hong Kong, and Australia have been the worst hit markets anywhere in the world. Second, which is largely barred to foreign investors, seemed paradoxically to defy the international trend earlier in the week when it touched a record high on the composite index Tuesday. But it too has now come off the heights as the realisation has struck home of how a falling dollar and a possible US recession would affect its highly export-dependent economy.

Australia had enjoyed a giddy boom in the market earlier in the year as gold and other re-

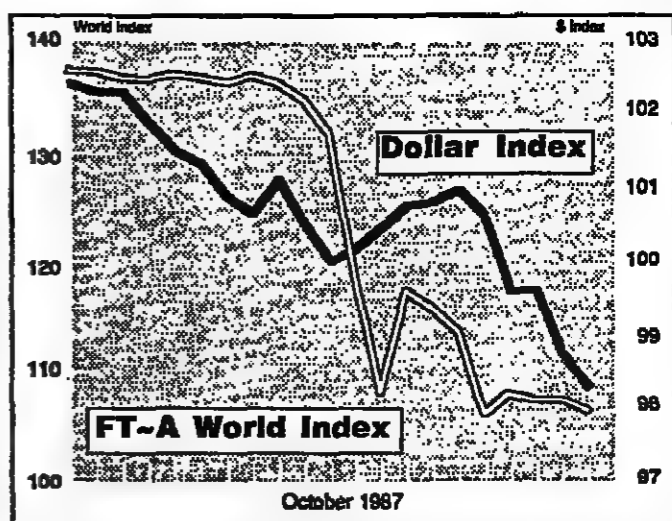
sources shares attracted international attention. But the higher they go, the further they fall. Australia has crashed by 33 per cent in two weeks. Pessimism over gold has led the way. Australia's resource-based economy would be highly vulnerable to a US world recession, and doubts are raised about the ability of its entrepreneurs to withstand the crash of share prices in view of their high gearing.

Singapore and Hong Kong had also enjoyed strong bull markets earlier in the year, benefiting in part from international fund managers who took profits in Tokyo and sought better value elsewhere in the region.

The Hang Seng Index suffered a deadly 33 per cent decline on Monday when the market reopened after a week's closure. A HK\$2bn rescue package for brokers who were exposed to the futures market was insufficient to restore investor confidence, and it took another HK\$2bn in the kitty - funded in part by China - to restore relative order.

The market has continued to decline - off 41.7 per cent since October 14 on the Hang Seng - but the biggest loss of all may turn out to be Hong Kong's reputation as an international finance centre.

European markets withstood



the first week of the crash with relative composure, but much of this came unstuck as the US dollar wavered, and then plunged amid deep doubts over the integrity of the Louvre accord on the dollar that was aimed at maintaining exchange rate stability.

Record declines were registered elsewhere on the continent, where many markets plunged new lows for the year and on Thursday Stockholm and Madrid faced severe liquidity crises amidst relentless selling.

On Friday the apparent new-found strength of the dollar and market recoveries across the globe gave new grounds for optimism that the bottom had been found for the moment. But

this could be only temporary. The US trade and budget deficits underlying the crash are unsustainable, as is the valuation of the US dollar. Correcting these imbalances would require an unprecedented level of domestic US political action and international cooperation.

But the international stock market crash has at least forced policy-makers to stare down into the abyss of financial crisis and deep recession. There can be no doubt now what is at stake.

Steven Butler and
Carla Rapaport

How to whistle in the dark

THE BEAR has only one desire, and that is to move the market to lower levels while taking the greatest number of stockholders with him. In order to do this, the Bear must keep investors' hopes up. The Bear does this via frequent and often violent rallies against the primary downward trend. Over the next few months these gloomy words, written last weekend by Richard Russell, author of the Dow Theory Letter, should echo like a Wagnerian leitmotif through every investor's head.

The point is not that anyone can say for certain that the dreaded Bear has now finally taken over. Russell's Dow Theory, based on the interplay between the Dow Jones Industrial, Transportation and Utility averages, may now be firmly bearish, along with many other technical and mechanistic analyses of market movements, but most of these techniques have given plenty of wrong signals in the past and will certainly continue to do so in the future.

The real point of highlighting Russell's warning is to draw at-

tention to a fact which is incontrovertible: that every bear market looks constantly as if it is about to turn bullish, and it is precisely at these turning points that the bear traps more and more of the unwary investors who have survived his previous assaults.

In retrospect it may turn out that Monday night this week, when the Dow Jones Industrial Average fell 156 points to below 1800, was one of the great buying opportunities of a lifetime.

To judge by the market activity during the rest of the week, not only on Wall Street, but also in Tokyo, London and the US bond market, the Crash of 1987 may soon be turning into a mere historic curiosity. It was the biggest, costliest and most frightening correction ever, but maybe after all it was just a correction in a continuing bull market.

That certainly appeared to be the growing sentiment among investors once they had got the selling spree of Monday behind them. The third biggest decline, in terms of points, in Wall

Street's history had not degenerated into a second Black Monday.

The bargain hunters had kept coming out in force as the Dow bounced repeatedly just below 1800, and trading volume, while enormous, never approached the frenzied levels of the week

Wall Street

before. To put it in a word, it seemed the market had finally found a bottom.

Needless to say, the subsequent jubilation has been impressive. With a gain of 230 points, or 13 per cent, by Friday lunchtime, the market had recovered to well above 2000.

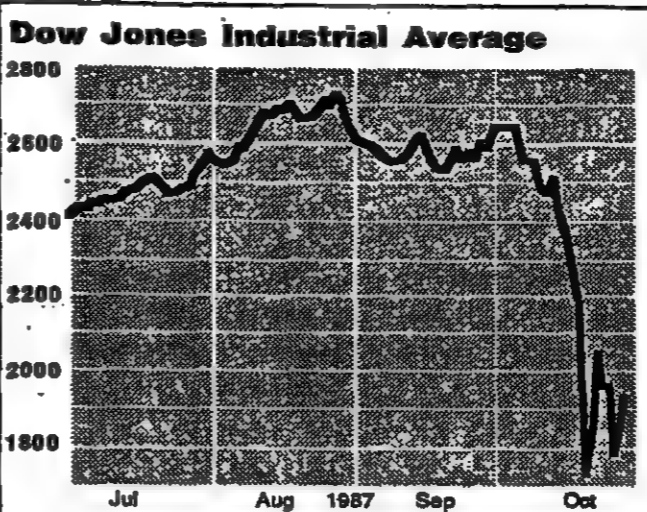
Investors lucky enough to have bought shares prior to January 30 this year were once again showing a gain - assuming they were prudent enough to buy in cash and not on margin, and brave enough to keep a grip on their portfolios during the panic of the previous week.

With the second successful assault on the 2000-mark since the crash now completed, many such satisfied investors are now readying themselves for another big upward run - perhaps to 2200 or so within the next few weeks.

As for what lies beyond that: few of the analysts are ready just yet to stick their necks out, but already the hushful murmurings of the worst is behind us, 'new highs by next summer' and 'Dow at 3000' can readily be discerned.

The main reason for optimism is obvious. If IBM was worth \$170 last summer, why not \$180 next year? There was no clear economic reason for the last few months' market panic, therefore we may as well assume that the market levels which prevailed before it will soon return.

The counter-argument is equally simple: there was no clear economic reason for the market's giddy climb throughout the last 12 months either. But this observation, so popular only a few days ago, is falling



out of favour with every ten points the Dow manages to add. However, before concluding that the bull market is once again up and running, it is worth reflecting on two of the most important events that have not happened during the past two weeks.

Almost no Wall Street econo-

mist has publicly forecast a recession in the US economy any time between now and the end of 1988 - which means in practice, anytime in the foreseeable future, since none of the popular econometric models are deemed for one year. The absence of a recession would

seem to be good news for the financial markets. But it does provoke one nagging thought.

If a recession is in store, the present price structure, and state of expectations on Wall Street certainly does not reflect that danger. If any serious signs of recession do materialise during the next few months, the market will almost certainly crash again, and probably fall a good deal further than its nadir on Black Monday.

The second non-event of the week could be even more important. Contrary to almost universal predictions, there has been no crash on the Tokyo market. Indeed, Tokyo's persistent buoyancy each night, including most crucially the night after the Dow's 137 point collapse on Monday, has probably been the week's most bullish influence on Wall Street.

After all, the bulls do seem to have a point so long as Tokyo continues to demonstrate so graphically that there is no such thing as gravity in the world of 1980s international finance. If Nomura Securities can have a market capitalisation of over \$600bn, why shouldn't Ford or General Electric be worth at least half as much? And if Nippon Telephone can have a mar-

ket value two thirds of that of the entire GNP of the United Kingdom, why shouldn't IBM be worth two thirds as much as Sweden?

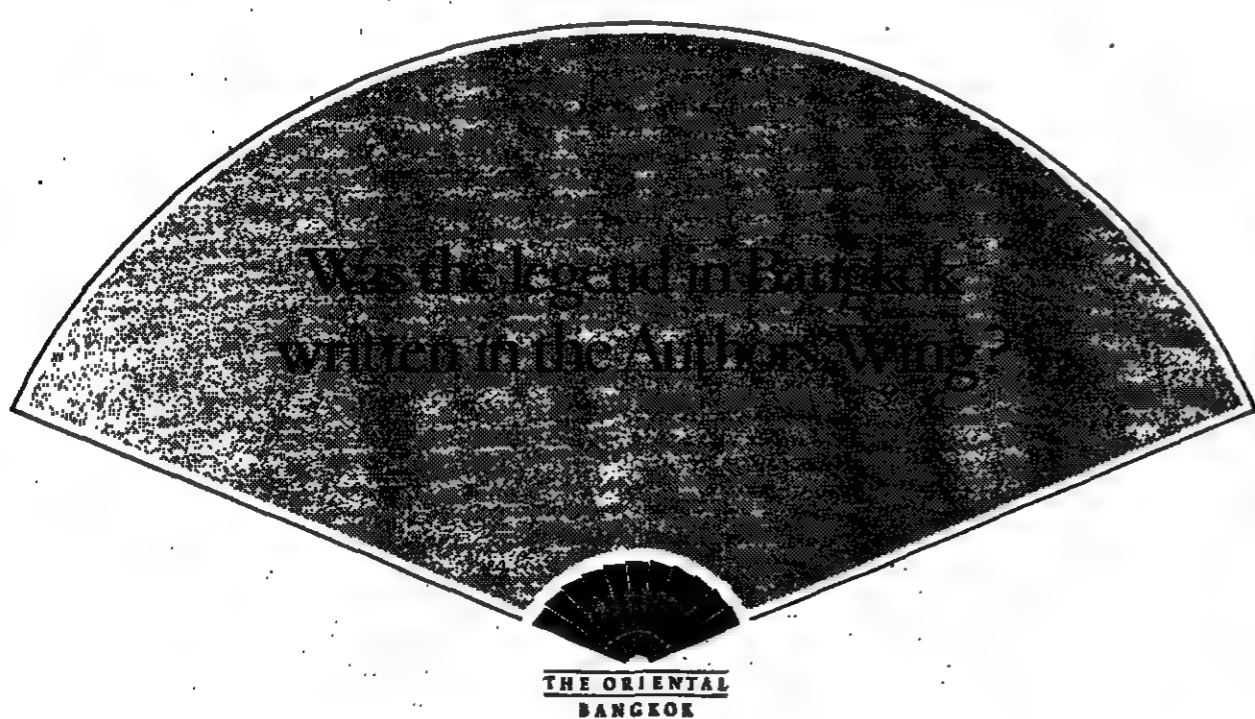
Remember though that the Bear can answer all such questions with another: What happens to Wall Street after Tokyo finally does crash?

Monday	1792.93	-	156.88
Tuesday	1846.49	+	62.56
Wednesday	1846.84	+	0.35
Thursday	1928.33	+	91.49
Friday	1953.53	+	25.20

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FINANCE & THE FAMILY

Alice Rawsthorn announces the results of the Great Investment Race

Ended in the nick of time

THE TIMING could scarcely have been better. The Great Investment Race ran its course through one of the most bullish years that the world's stock markets have ever experienced. And it ended just before the crash.

As a result, the charities which will receive the profits of the Race have benefited from the best of the stock markets and avoided the worst. Charity Projects, the group which conceived and has organised the Race, has raised £779,596 to donate to charity.

In the Great Investment Race six teams of fund managers pitted their investment skills to see which could raise the most money for charity by managing a portfolio worth £25,000 for a year.

Between September 24 1986, when the Race began, and September 25 1987, when it ended, the FT-100 All Share Index rose by 51 per cent. In the US the Dow Jones Index surged by 43 per cent over the same period, while in Tokyo the Nikkei Index jumped by 35 per cent.

Yet the teams performed even better. The value of their original portfolio - the £210,000 given to Charity Projects as an inter-

est free loan by Prudential Unit Trust Managers, the Race's sponsor - increased by no less than 471 per cent.

The Great Investment Race began with £210,000 and ended with £989,556. By comparison Charity Projects would have emerged with a profit of just £13,440 had it sunk its money into gold, or £18,978 had it plumped for a Halifax Building Society account.

Individually some of the teams fared even better. The most successful teams tended to be the most opportunistic.

The winner, Prudential Portfolio Managers, favoured a speculative strategy from the start - ploughing huge sums of money in and out of the futures markets from day to day - and boosted the value of its portfolio elevenfold to make £246,229 for charity.

Similarly Fidelity, the fund

management group, benefited by balancing high risks against high rewards to make a profit of £210,348, and Hoare Govett, the London stockbrokers, presented Charity Projects with £143,502.

Messel, another London broker and part of the Shearson Lehman group, more than doubled its money to make £48,536, while Nomura, the Japanese securities group, and Bell Lawrie, the Edinburgh-based brokers, fell behind the rest of the field but produced respectable profits of £17,085 and £14,085 respectively.

Charity Projects is now finalising its plans to donate the profits to charity. Charity Projects was formed three years ago by Jane Tewson, who then worked for Mencap, the charity for people with mental handicaps, to stage fund-raising events for charity. In order to

ensure that every penny of the money raised goes to charity, all the project's running costs are sponsored by individuals and corporate supporters.

It is Charity Projects' policy to favour charities which would otherwise find it difficult to attract funds - which are too small to master the resources to raise money at a national level, or which work in "unspeaking" fields. It has donated substantial sums to those which help the young homeless or unemployed and the young victims of drug and alcohol abuse.

The money raised by the Great Investment Race will be divided between the Home Farm Trust, Shape and a wide range of smaller charitable groups.

The Home Farm Trust provides long term care for adults with mental handicaps in a network of a supportive environment

work of residential and day care centres across the country. It will receive £233,957 from the Race, which will be used to construct craft workshops at its new centre in Bedfordshire.

Shape, a national network of groups aiming to build bridges between people with disabilities and the arts, will receive £155,971. This money will be distributed between five of the regional organisations within the network; most of it will be used to fund training for example to enable people with disabilities to work within the arts and arts administration.

The rest of the money will be donated to a variety of projects: £20,000 goes to Broadreach House, a centre for young people with drug and alcohol addiction problems in Plymouth. Broadreach will put the money towards the purchase of a halfway house to provide patients

before they return to life in the community.

Centrepunt, an organisation based in the Soho area of London to help the young homeless, has received £22,000 for a six-month research project to find out why young people become homeless, what type of people they are, and what becomes of them.

Other grants have been given to provide an assistant director to a group working with young deaf people; to buy and convert a mini-bus for the use of people with disabilities in a rural area; and to purchase a house to provide accommodation for homeless young women with children.

Charity Projects is now finalising plans for the next Great Investment Race which will run alongside it. Prudential Unit Trust Managers will again act as sponsor. It has offered to increase the value of its sponsorship to £250,000 enabling more teams to participate.

The Race will begin as soon as the new teams have been signed up. Charity Projects is crossing its fingers in the hope that the mood of the stock markets will be rather more benign in the New Year.



JOINT winners of the FT Readers' Race, which was run in conjunction with the Great Investment Race, were each presented with £1,250 worth of Prudential-Helbera unit trusts by Alan Wren, chief executive of Prudential-Helbera. Chris Pankhurst of

Wimbledon, and Frank White (centre) of Boston chose units in the Helbera Special Situations Fund on the grounds that it provided the best scope for benefiting from any general recovery in the stock markets. The Readers' Race raised an additional £17,085 for charity.

Pru gallops past the post

Bell Lawrie

WHILE so many of its fellow teams set their sights on the high risks and high rewards of speculative investment, Bell Lawrie, the Edinburgh stockbroker, began the Race intent upon pursuing a more cautious investment strategy.

"We decided to manage the portfolio as we would that of any other private client who wanted high growth from their investment," says Derek McIntosh. "But half way through the Race we saw how well the other teams were doing and tried to become more speculative. In retrospect that was an error."

The Bell Lawrie team - composed of Derek McIntosh with his colleagues Alan Henderson, Frank Malcolm and Bryan Johnston - began by assembling a broadly based portfolio of UK equities. Originally it intended to hold the portfolio throughout the Race and pocket its profits at the end.

But half way through it sold some of the shares in order to release capital to chase its luck in the traded options market.

Bell Lawrie made a mistake. Some of the shares - such as Grampian Holdings, and Pacific Assets, a Far Eastern investment trust - were worth much more by the end of the Race. Moreover it made a few blunders with options. As a result it trailed behind the field for much of the Race, and finished last with a profit of £14,085.

Undaunted, Bell Lawrie is determined to re-enter the Race next year. "We will adopt the same cautious approach," says McIntosh. "But this time we will stick to it!"

Fidelity

"WHAT wonderful timing!" says Peter Playdell Bouverie of Fidelity. "The Race could not have ended at a better moment, exactly a month before the stock market crashed."

For much of the Race the team from the Fidelity fund management group flourished in a bullish stock market. It had adopted an opportunistic investment policy from the start and led the field for the first half.

Fidelity was most successful in the Far East, chiefly in equity investment. It ran into a few problems with Japanese warrants and a few stocks which did not perform as well as it expected. Nevertheless, by the end of the first half the value of its portfolio had quadrupled.

The team - which embraced Playdell Bouverie, Anthony Bolton and Gary Lowe - opted for a more conservative approach for the second half of the Race.

"By that stage we had made a reasonable amount of money and decided that we should consolidate our position and ensure that we saved it for the charities," says Playdell Bouverie. "It was already apparent that the markets could have turned against us. Nevertheless, we were prepared to run a few

risks to make a bit more money towards the end."

Fidelity finished in second place, having made a profit of £210,348. It has decided not to enter the 1988 event but intends to continue its involvement with Charity Projects and has made a donation to sponsor the appointment of a grants assistant, who will work on grants for smaller charities.

Hoare Govett

"WE WERE aggressive from the beginning," says Peter Clark of Hoare Govett. "At first the results were not at all imposing, but after that everything went very well."

Hoare Govett, the London stockbrokers, fielded a team of five people: Brian Baughan, Peter Meinertzhagen, Roger Nightingale and Roy Barnes as well as Clark.

The team got off to an uninspiring start by losing money on an unsuccessful rights issue from Buzel, the paper and plastics group. After this setback Hoare Govett flourished for a few months, but surged ahead in the second half with a series of successful - and highly speculative - investments.

The team had most success with small property companies in the UK and the secondary market in Australia. Hoare Govett ended the Race in third

place with a handsome profit of £143,502. It is now bracing itself for the next bout. The composition of the team will change - it will include representatives

from each of the overseas sales desks - but the strategy will be as aggressive as ever.

"In the first Race we took a short term view of relatively

few stocks and it worked!" says Clark.

Messel

"BEFORE the Race began we thought that to double our money in a year would be pretty aggressive," says David Hunter of Messel. "Clearly we were too conservative."

The team from Messel - the London broking house which is part of the Shearson Lehman group - succeeded in more than doubling the value of its portfolio and has presented Charity Projects with profits of £48,536, finishing the Race in fourth place.

David Hunter, with his teammates Sue Blacker, Geoffrey Chamberlain, Michael Del Mar and Peter Jones - sold the portfolio between equities and financial futures.

By and large Messel prospered in futures, but the team misjudged the money markets after the General Election. "We were convinced that the pound would go up," says Hunter. "It went down."

But Messel compensated with success in equities. One of its best investments was a stake in Acis Jewellery, a USM-quoted retailing group which has become the investment vehicle of Daryl Phillips, the South African entrepreneur. The Acis share price trebled during the

work of residential and day care centres across the country. It will receive £233,957 from the Race, which will be used to construct craft workshops at its new centre in Bedfordshire.

Shape, a national network of groups aiming to build bridges between people with disabilities and the arts, will receive £155,971. This money will be distributed between five of the regional organisations within the network; most of it will be used to fund training for example to enable people with disabilities to work within the arts and arts administration.

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Race. Messel was able to pocket a tidy profit before it tumbled in the recession.

In retrospect Hunter wishes that Messel had been rather more opportunistic. "Success or failure seemed to depend on one's definition of risk," he says.

Nomura

BEFORE the Race began many of the teams confessed that they regarded Nomura - the largest securities house in Japan, which had just ventured into the London stock market - as their most dangerous rival.

Their concern was exaggerated. Nomura fared well in the opening weeks of the Race, but its performance was rather dull from then onwards. It ended the event in fifth place, just ahead of Bell Lawrie, with a profit of £17,085.

For much of the Race Kenichi Fukuhara managed the Nomura portfolio on his own. For the next event he plans to seek support by drawing on the skills of other colleagues within the group.

Fukuhara concentrated on one or two stocks at a time and stuck to the Tokyo market as "the area that I know best." Having increased the value of his portfolio in the early weeks of the Race he decided to hold on to his gains.

"With hindsight I should have been more aggressive and moved into new investments," he says. "But I was not prepared to take the risk."

Fukuhara envisages a different approach for the Race in 1988. "We will field a larger team," he says, "move into different world markets and be much more aggressive."

Prudential

HAVING stolen the lead from Fidelity at the half way stage, the team from Prudential Portfolio Managers led the field for the rest of the Race.

The Pru decided at an early stage to concentrate on its special skills of investment in UK equities and in the FT-SE equity futures market. The result has been spectacular. Within a year its portfolio multiplied almost elevenfold and it has made £246,229 for charity.

The Prudential was especially successful in its futures trading. "Even in a strong market there are times when sentiment turns bearish," says Pullen. "In those instances, if you read the market correctly you can make a lot of money."

It also fared well with equities. One of the most successful investments was in Miller & Santhouse, the USM-quoted opticians, in which it invested as a new issue. But the Pru's biggest coup was a series of futures investments in which it would sink tens of thousands of pounds into individual deals for a day.

The Pru is now bracing itself to guard its laurels in next year's event. "There is no doubt that the investment markets will be less supportive in 1988," says Pullen. "But there are good times as well as bad in a bear market. We will be looking around for the good times."



WHITTINGDALE

UNIT TRUST MANAGERS

"INVESTMENT PRICES CAN GO DOWN AS WELL AS UP!"

How many times have you read this obligatory, government health warning in financial advertising?

Unfortunately, the events of the past two weeks have driven this message home to investors in no uncertain terms.

As wave upon wave of dramatic price movements hit all the world's major Financial Markets, many investors must have wondered what they could do. Many undoubtedly wanted to sell. Many undoubtedly tried. But, many found that they could not get a price to deal at.

Perhaps, they wondered how much they had lost. Perhaps, they asked how they could avoid facing this problem again.

The perennial investment problem - how to minimise risk, but still have the capacity to benefit from world markets without incurring heavy costs.

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- a company determined to quote accurate prices and to be open for dealing every working day;
- a company whose reputation for service is regarded so strongly that its clients can get their money by return of post if they need it;
- a company whose professional approach has brought over £1.2 billion under management;
- a company used to dealing in more than one currency;
- a company nine out of the top twelve firms of accountants use for their clients;
- a company that manages money for over 20% of Lloyd's Insurance Syndicates.

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NZI Corporation, an international New Zealand company with assets of over £2 billion, is launching the first of its unit trusts, The British Growth Fund, through UK Unit Trust Managers Limited, one of its UK group of companies.

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Investment Manager to the British Growth Fund is the London-based NZI Investment Services, part of an international group managing more than £1 billion of funds. As evidence of NZI Investment Services' superb

investment skills, the new funds of UK Life, a sister company of UK Unit Trust Managers, were all in the top quartile of their sectors at their year-end. They were also placed 3rd out of 81 life companies in a survey of insurance management group performance published by 'Investment Adviser' on September 23rd, 1987.

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FT/31/BI

The equities dream ends

INVESTORS ARE still reeling from the great equity market collapse. The plunge in share prices came as a reminder of the age-old truth that equity investment is risk investment.

The more enduring attractions of gilts now stand out in relief, especially because the subdued growth, low inflation economic outlook stemming from the world stock market decline holds out the prospect of short-term capital gains on fixed interest securities as interest rates fall.

What has happened in the past two weeks is that investors have made a radical reassessment of the likely real returns from their investments. Equity markets were borne higher on optimistic projections of growth. These ran well ahead of what the world economy, locked in a 2 to 3 per cent growth range, could reasonably be expected to deliver. To compete with buoyant equity markets, fixed interest securities had to give substantial real (that is, inflation-adjusted) yields of 5 per cent or more.

The equity dream is now over, and share prices have dropped back by about 20 per cent from peak levels. This brings equities into closer alignment with the realities of productivity growth and profits expansion. It also leaves room for real yields on fixed interest securities to fall. Already, 20-year gilts yields have dropped by a full percentage point in the past two weeks, most of which reflects a decline in real yields.

The decline in real yields on gilts probably has much further to go. The real yield on the 20-year gilt has been 2½ to 3 per



Stephen Lewis, of Phillips & Drew, looks at prospects for the gilts market

A further consideration favouring gilts is the low proportions of fixed interest securities now held in UK financial institutions' portfolios. Before the stock market collapse, these proportions had reached all-time low levels of 11 per cent for UK pensions funds, 21 per cent for life assurance companies. The institutions will now probably swing much of their new investment in the direction of gilts, to bring fixed interest weightings close to normal.

For the problem is that, with the Government's borrowing needs at negligible levels, gilts are not being created on a scale to meet their requirements. The resulting shortage of gilts is likely to push gilt prices higher.

The influences which have kept gilt yields high for so many years are now giving way to a much more favourable set of circumstances. It is not fanciful to look for long-dated gilt yields to decline from about 9 per cent to between 6 and 7 per cent over the next two to three years. This would yield capital gains for the investor of 20 per cent or more.

Offset losses against assets

A CRUMBS of comfort for shareholders who have lost money in the past two weeks will be the chance to reduce their tax bill. Losses can be set off against capital gains on other assets. With capital gains in excess of the £2,600 annual exemption you stand to recoup 30 per cent of your share losses - the current rate of CGT.

Those who plan to hold on to their shares hoping to ride out the current stock market dip may also benefit from paper losses suffered so far. By selling and buying back the shares, the loss is crystallised and can be used to offset capital gains.

Two factors may make this route unattractive. There are dealing costs and stamp duty to pay in selling and buying back, and if shares rise between the sale and repurchase, the investor will lose out.

The two transactions must be separate to work, exposing the shareholder to genuine risk. It may be enough to sell the shares one day and buy them back the next.

But Mr Christopher Bull, a tax partner with Price Waterhouse, warns that it is safer to buy and sell in different stock exchange accounts so that there is no doubt about the validity of the loss.

Under the account system share settlement is made every two weeks. An investor's sales and purchases are netted to leave the amount he owes or is owed. By selling in one account and buying in another, with settlement in between, there can be no doubt about the separation of the two transactions, says Mr Bull.

Allowable losses on shares may arise, even though their current value is higher than the price paid for them, due to an indexation allowance designed to take purely inflationary gains out of the tax net. It can also turn a gain into a loss or increase the loss size.

Shares bought two years ago may now stand at the same price, but in real terms there has been a loss which is recognised by the taxman.

A number of rules make this a complex area of tax law. They include:

- Complicated rules govern the treatment of shares bought at different prices in the same company. The Inland Revenue uses several pooling arrangements to calculate the original cost of the shares sold. Different rules apply to shares bought and sold within the two-week Stock Exchange account: the last bought are the first sold.
- Losses made on shares which are sold to another family member cannot be used to reduce a taxpayer's overall liability to CGT - even if the sale is at market price and is above board. The losses can be set off against profits made from a transaction with the same family member.
- "Bed and breakfasting" to realise losses reduces future indexation allowances because the shares are bought back at a lower price than their original cost. The lower cost means there will be fewer inflationary profits in future years to generate the allowances.

Richard Waters

Savers' seminar

THE recent debate on the stock markets, the Money '87 Show at Olympia, London, next week is likely to be different from the planned event.

Although the different management, the show is being run on the same lines as the previous two, held when the stock markets and financial services industries were booming and investors were intent on enlarging their fortunes. This year they will want to find out how to protect themselves.

The organisers are confident they can deal with the new scenario and expect attendance during the four days to reach about 30,000. There are 280 exhibitors this year - up 40 per cent - covering a range of financial products and services.

The show offers 31 seminars dealing with a variety of subjects, from financial planning for retirement to management buyouts and investing in platinum. There will also be seven specialist interest centres, offering free advice and information on investor relations, stock exchange, investment, pensions, unit trusts and FIMBRA (Financial Intermediaries, Managers and Brokers Regulatory Association).



The Securities and Investment Board is taking a stand for the first time, reflecting important changes in investor protection planned for next year. It will explain its key role in implementing the Financial Services Act. Chairman Sir Kenneth Berrill will attend the show on the opening day.

While share sellers may be on the defensive, suppliers of other products such as mortgages, pensions, insurance and deposits could have a field day offering their wares to a more receptive audience.

The show runs from 11am to 7.30pm on Thursday, 10am to 5pm on Friday and Saturday and 11am to 5pm on Sunday. Entry is £5 at the door, but tickets distributed by exhibitors, intermediaries and magazines are free or at a discount. Every 100th visitor will have the chance to win an FT Factmaster personal organiser. If the ticket number matches those displayed on FT stand number 4016, the prize is yours.

John Edwards

Home loans

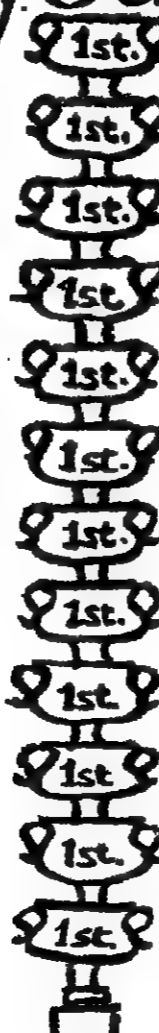
INVESTORS who were unwise enough to borrow money for speculation on the stock market - and therefore are in a bit of a predicament - are obviously in real trouble.

One solution is to borrow more, using your house as collateral. There are believed to be quite a lot of people who are in this position - are obviously in real trouble.

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Which company would you buy your pension from?



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NEAREST RIVAL

Number of 1st places in surveys of regular premium with profits policies for the self-employed as published by Planned Savings magazine 1974 to 1986 inclusive.

Many companies will be competing to handle your pension but which should you choose?

As the oldest mutual life assurance company in the world The Equitable's 225 years of experience clearly sets us apart. However, it is not just our longevity you should consider:

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For the past 13 years Planned Savings magazine has surveyed regular premium with profits pension policies for the self-employed. Of the 23 tables published for 10, 15 and 20 year terms, The Equitable has come top in 12 and second in 6 more. An unrivalled achievement.

Quite simply, in that period, we have more first places than all our UK competitors put together.

TOP PERFORMANCE
Also, do not make the mistake of thinking there is little to choose between pension companies.

If you had retired on 1.9.86 aged 65 you'd have been 64% better off with

The Equitable than with the worst performer amongst our competitors?

FLEXIBILITY
The Equitable flexibility, too, is outstanding. You can retire at any age between 60 and 75 without any penalty and are free to vary your contributions as you wish. Furthermore, The Equitable offers a wide range of investment routes including both with profits and unit-linked schemes. And unlike many companies which make hefty charges in the form of low initial allocations or so called capital units to cover the setting up costs of your unit-linked policy, The Equitable makes no such charges. Also, our ordinary management charges for the underlying investment fund are commendably low.

How do we achieve this?

NO COMMISSION
The Equitable has never paid a penny of commission to brokers or other middlemen for introduction of business. So more of your money is available for investment.

NO SHAREHOLDERS
Nor does The Equitable have any shareholders to nibble away at the profits.

EXPERT INVESTMENT
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Time to hold hats

PRIVATE investors seemed to have showed most nerve over the stock market crash. Many unit trust groups reported that there were still net sellers of trusts, primarily because private investors viewed the fall in prices as a good opportunity to buy. In almost all cases the big redemption of unit trusts came from brokers and institutional investors.

An instant survey by Audience Selection, a London telephone research agency, found that over half the investors in stocks, shares and unit trusts believed things were bound to get better.

However the crash did expose a rift within the unit trust industry. Some suspended dealings completely, especially in Far East funds, on the grounds that they were unable to provide a realistic valuation for the funds.

Some switched to forward pricing - offering to deal at a price

to be fixed some time ahead. But others, notably the biggest unit trust group, F&G, managed to continue dealings uninterrupted. Roger Jennings of F&G said it was a matter of principle. Its system of daily pricing, at 1pm, enabled it to deal at prices adjusted in accordance with changes in the index.

Many other groups, however, did suspend dealings for a time, much to the fury of some sellers, particularly brokers. One intermediary in northern England wrote to several groups expressing his "utter disgust" at their conduct and vowing never to buy another unit trust. Certainly, there was considerable resentment amongst investors that they were not given the freedom to deal just when they most wanted to take action.

Bill Stuttford, chairman of the Unit Trust Association, claimed that managers had to contend with a completely novel situation because such rapid price falls had not occurred before, even in 1929. Managers had to reconcile the legal requirement to produce accurate valuations before creating or cancelling units and the ability to deal at all times during normal working hours with would-be buyers or sellers. The problem was that it usually took three to four hours to produce portfolio valuations.

As the week wore on most managers showed considerable

forward pricing system, storing orders from unit-holders willing to deal "blind"; others obtained permission from their trustees to revise their prices more than once in a day.

The fact that some groups turned to forward pricing is something of an embarrassment to the Unit Trust Association, which is strongly opposed to a proposal by the Securities and Investment Board (SIB) that unit trust groups should switch to forward pricing in the US.

Stuttford was quick to point out that forward pricing, although workable, had proved very unpopular with investors. Many fund managers confirmed that they had received many complaints about dealing on a forward price. Nevertheless the UTA's case against forward pricing has been severely weakened, especially as some of its leading members like F&G and Fidelity are not strongly opposed to the idea.

The decision by many groups to suspend dealings completely for some time was strongly defended by managers as being in the interest of existing unit-holders. Ian Sampson of NM Schroder commented that he was not prepared to let the "switch merchants" make hay at the expense of existing holders.

Ironically the Unit Trust Association produced end-of-the-week figures showing an enormous expansion in the number of unit-holders, a record monthly figure for net new investment and the value of funds under management breaching the £30bn mark for the first time.

It is anticipated that by now the value of funds is likely to have dropped to £40 bn as a result of the crash. The average industry loss for funds is put at about 20 per cent, although of course this varies widely with Australian and Far Eastern funds showing much higher losses and fixed interest and bond funds much lower losses.

Ever resourceful, and in tune apparently with the mood of many private investors, unit trust groups are now publicising the advantages of new funds which have not yet invested the money received, suggesting they will be buying shares at bargain basement level.

John Edwards

BARING FUND managers held their annual conference for professional advisers this week. Perhaps they were aiming to coincide with the first anniversary of Big Bang; they actually coincided with more than that.

The prearranged international investment theme of the conference matched the events of the past fortnight. As unit trust managers with a distinct international flavour, Baring came into the conference chamber with funds of about £300m under management, down from a peak of more than £450m.

Marketing director Peter Hall said the drop was due to the market malaise. "Our sales-to-redemptions ratio was still two to one over the period of the crash," he said, pointing out that Baring is not protected by assured cash flow from monthly investment plans.

So what's next? John Bolover, chief executive and chief investment officer of Baring International Investment Management, London, counselled a sober assessment of international economies and equity markets, and gave an oblique view of his game plan by describing a foreign market which peaked this week.

In many ways, he said, the country was the reciprocal of the US. It had:

• No budget deficit;

Baring up in the storm

• A foreign debt which had declined in the past two years;

• A forecast trade surplus this year of US\$ 6bn;

• Little foreign involvement in its stock exchange;

• Nationals who were not allowed to invest elsewhere;

• A pe ratio of 8.

The country was South Korea and the market was Seoul. It allowed Mr Bolover to say that the US budget deficit had been pushed under the carpet for far too long.

His colleague Stephen Cutler, just in from Boston, agreed - up to a point. The US budget deficit of \$182bn forecast for this year - against \$148bn last year and an "out of control" \$250bn before that - needed to be cut and would be, he declared. President Reagan would raise taxes through "loophole closures."

For Wall Street crystal ball gazers Mr Cutler offered snapshots of the market as it was on August 17, when the Dow was at 2700, and October 19, when it was at 1732.

Over that period, he said, the market had moved from high earnings expectations to fears



James Williams

of recession, undermining earlier estimates. Baring's asset allocation model, which had shown cash as a more attractive home for funds than stocks or bonds in August, had moved to neutral after declines in interest rates and stock prices.

The mood had moved from complacency and greed to fear and depression, but Mr Cutler maintained that the US market

is cheap relative to book value, earnings, cash flow and yield, that the US trade deficit is 3 per cent of GNP and improving, and that it will become less of a factor in future.

Baring First Europe Trust manager Crispin Odey said investors should be looking at national economies which were less dependent on US growth for their own vigour and less dependent on foreign capital. He said their stockmarkets should have strong financial institutions and banks, which directed the flow of funds to the West German and Swiss markets.

Mr Odey's corporate investment targets would be non-cyclical, with clear strategies and known management.

On Tokyo, Baring put up James Williams who has a dozen years' experience of Japanese portfolio investment. He is not optimistic about the Japanese picking up the pieces of various western markets; he is more interested in the stimulation of Japan's internal economy.

This, he said, has prompted Baring to make large portfolio adjustments in Japan towards

manufacturing companies, where the state profits will rise by 50 to 60 per cent over the next two years.

Mr Williams was particularly plegmatic on the forthcoming \$30bn sale by the Japanese government of the second tranche of NTT shares. He said the institutions had built up 3 1/2 times that figure in the call market to take care of the NTT issue.

Jonathan Compton, investment manager of Baring's Australia and Eastern trusts, dealt with the rest of the Pacific Basin, but managed a couple of generalisations on the way. "It would be as insane to extrapolate the recent drops in international equity indices as it would have been to carry through the rising trend lines from earlier in the year."

An inevitable shift of economic power would result from the crash. This would move to the non-Japanese Pacific Basin, which was experiencing an enormous rate of real economic growth. "Basket-case economies" like the Philippines should be left apart, he said.

These "highly dynamic trading economies" had a further characteristic in common: the earnings yield on all these markets is higher than in the crisis period of 1974, he said.

William Cochrane

Be wary about shares

Much will depend on what happens in America. If interest rates are cut there to restore stock market confidence, there would be further downward pressure on rates in Britain.

Rates may have to rise to restore confidence in the dollar, causing upward pressure on British rates, so savings rates could go up or down.

You would be better investing with a building society rather than a bank or National Savings. Rates offered by societies have been the best for most of this year. In the past week they have not adjusted their rate cut, but many banks have lowered theirs.

If you had £10,000 to deposit and agreed to give three months notice before withdrawing it, you would be paid 8.18 per cent net of basic rate tax by Halifax. National Savings would pay 8.04 per cent, while Barclays would give only 8.625 per cent.

Whether this differential will continue remains an open question. Societies have been paying good rates up to now because they have had to. While the bull market in shares was in full swing this was the only way they could attract funds from small investors. Even then they could not get enough money to finance their mortgage lending.

The crash means societies are likely to be flush with funds. They have already benefited from the failure of the BP flotation, expecting a massive outflow of funds but actually experiencing a healthy inflow. The dynamics of the savings market seem certain to change over the next few months, with societies not having to work so hard to raise money. This would tend to depress the rates they pay savers.

They are also likely to become more aggressive in the mortgage market. Abbey National general manager John Bayliss said the society's strategy

was to drive down the margin between Libor, the benchmark interest rate in the money market, and the mortgage rate to make it more difficult for competitors.

Abbey wants to boost its share of the home loans market and would be prepared to cut its mortgage rate to achieve this. The same is true of Halifax, the largest building society.

No large lender has yet moved its mortgage rate, but if base rates fall any further, mortgage rates are almost certain to drop. Building society savings rates would follow.

The key question with National Savings is whether the Government's borrowing strategy will change. This year tax revenue and privatisation receipts have been buoyant, so the Government has needed to raise little money from small investors. It has been paying poor rates on National Savings as a result.

The crash may change this. There is likely to be lower economic growth next year, which will be depressing for Government revenue. And following the BP debacle the privatisation programme has been thrown into question. National Savings could play a more im-

portant role in Government financing as a result, making its rates more competitive.

The rates banks pay are likely to continue moving in line with base rates. If societies reduce their rates further than any fall in base rates, banks are likely to become more competitive.

In the long run it is unlikely societies will continue to be such a clear choice for people who want a safe haven for their cash. But you will still be better off saving with them in the short run.

Hugo Dixon

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Piggies save their bacon

IN THESE turbulent times I have become an addict of Channel 4's "Business Daily" programme, every week day at noon.

Last week my daughter Kimberley, who is almost three, saw me watching that programme and asked me: "Have I lost money too?"

I explained that her unit trust investments had gone down but eventually they would go up again. Now was not the time to sell.

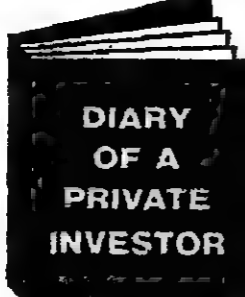
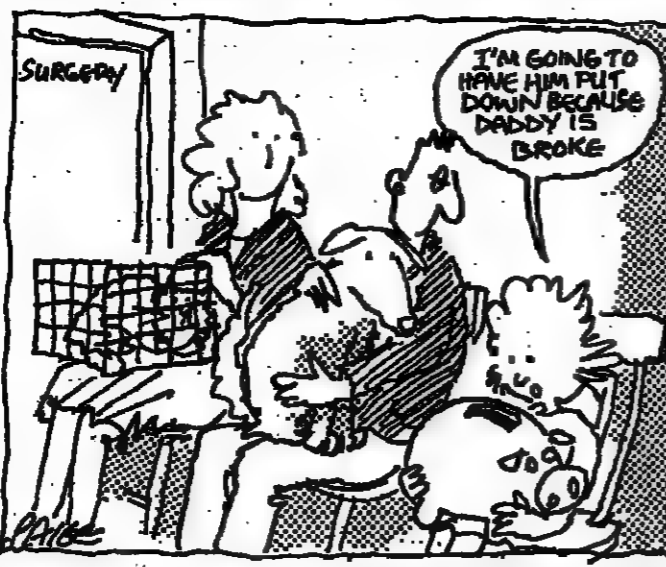
Then I realised that I was sounding like many of the representatives of City institutions who have been quoted in the press and on TV. Last week they were urging small investors not to sell.

I suspect some of them said that only to prevent people from worrying too much. While I was telling my daughter everything was all right, I was further reducing my own stock market holdings. Perhaps some fund managers have been doing the same.

However, frankness is the best policy so later I explained to my daughter that though I had sold shares and unit trusts this was because I wanted to make sure I came out of such investments with good profits, and I needed such profits to reinvest to add to my income.

My daughter's unit trust holdings were to provide her with some extra money when she goes to university in fourteen years time. That was the difference. I need investment income and profits now - my daughter needs money in the future.

Also, not all my investments have gone down. My investment in Rothschild's Old Court managed currency fund has actually shown an increase in value



while the world's stock market plunged. With the US dollar likely to fall still further and with even greater fluctuations in worldwide exchange rates, the expertise of Rothschild's in buying and selling currencies should hopefully continue to make this a profitable investment.

My shareholdings in small British companies have generally not experienced the 20 per cent or more falls suffered by some large companies, and most of them are still considerably above their purchase price. I am therefore reluctant to sell them as it might prove impossible, due to their low capitalisations, to buy them back again should the market look as if it is ready to rise steeply again.

In a way, this is disappointing. Had some of them suffered more dramatic falls in price I would have used some of my

"cash pile" to add to my holdings since they are basically sound businesses.

Although takeover activity of large companies may have temporarily been reduced, small "shell" companies could prove even more attractive takeover targets. They may well appeal to businesses wanting to reverse into them and thus acquire an immediate stock market quotation rather than having to wait until the stock market recovers and is willing to allow them a successful flotation in their own right.

I also pointed out to my daughter how fortunate I was to have liquidated a large part of my share portfolio before the crash happened. I was particularly pleased that in July I had sold my holding in a Hong Kong unit trust for 180 per cent more than I had paid for it; and on October 15, I sold most of my shares in HK-TV (a Hong Kong television company) for 125 per cent, having bought them in 1985 for 70p.

My "cash pile" will sit in a higher rate deposit account until suitable buying opportunities occur. I have not applied for BP shares.

At the end of all this Kimberley said: "That's good, Daddy. You still have money. So I don't have to give you the money out of my Naiswick piggy."

Kevin Goldstein-Jackson

Mailing orders

THERE WAS one minor consolation amid the gloom for holders of Personal Equity Plans (PEPs) this week. Norman Lamont, financial secretary to the Treasury, announced that from January 1, PEP plan managers will have to send company reports and accounts only to investors who want them.

At present managers are obliged to provide them to all investors. But this is costly and difficult, with many companies refusing to supply extra copies or charging for them.

Most complaints come from investors who receive company reports and accounts they don't want. Under the PEPs legislation managers have had to provide reports and accounts to all holders as part of the Chancellor's ambition to encourage wider interest in shares.

Under the proposed regulations, managers of discretionary PEP plans, where the company makes the investment decisions, will be required only to supply reports and accounts on request. Instead managers will have to provide a six-monthly statement explaining why they have bought and sold particular shares.

From January 1 cash payments into PEPs can exceed the £2,400 top limit to take up rights issues or other entitlements. Leading PEP manager Barry Bateman, of Fidelity, welcomed the government's decision. He said: "I'm glad they've seen reason; it was costly and time consuming and not appreciated by investors."

But he was dubious about calling up extra money for

rights issues. It would be an "administrative nightmare" to seek a yes or no decision and a cheque from a lot of investors, he said, so Fidelity was unlikely to take advantage of the new concession.

Lamont claimed that PEPs had made an encouraging start; since the beginning of the year almost 200,000 plans - almost 1,000 a day - had been taken out. But the expected surge in new plans being taken out before the end of the year seems unlikely.

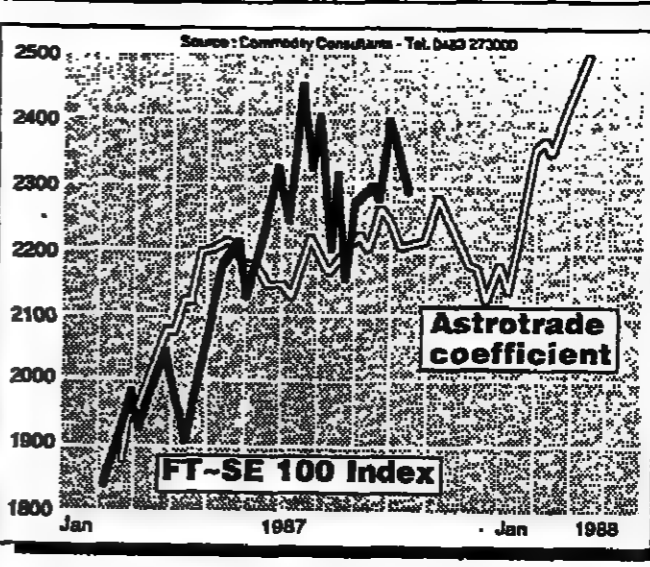
The collapse in the UK stock market means that many PEP investors will suffer severe losses in the second half of the year that are likely to wipe out any gains made in the first half. PEPs have to perform well to provide a competitive return, in some of the tax concessions.

Many PEP portfolios contain a few selected shares, which may have suffered a disastrous drop in value.

Restrictions in the PEP scheme mean that the fund managers have less room for manoeuvre. This year they have been entitled to keep the total cash investment, but in most cases they have been fully invested to take advantage of the higher return provided by the stock market...until the crash.

Some investors are tempted by a PEP plan because they are eager to invest in cash tax-free, or they expect the market to rally. But PEPs could provide a salutary lesson of the risks involved in share dealings.

J.E.



Star-crossed

Venus moved from Libra to Scorpio - and capitalism wobbled

AS A prophet of doom I find it difficult to admit I did not predict the extent of the market crash. The Astrotrade coefficient, an index of market strength based on computer analysis of stock exchange astrology, forecast a minor setback in prices. I expected to see the FTSE 100 index fall by about 150, not 650.

Much comment has been made about the similarity with 1929, but the real similarities are astrological. In 1929 Neptune was in an earth sign and Saturn was in Sagittarius as it is

now, but the greatest similarity is yet to come. Market action does not depart from the predictive line for long and usually catches up.

This year they have correctly predicted the vigorous bull market, and even our 2,500 target was close. The main feature is the way targets have been overrun and our goal reached too soon. The ultimate high on July 16 coincided with the peak of the July coefficients. The largest breach in the prediction occurred with the fall, but the market action will probably return to the Astrotrade line.

The graph predicts a rally until mid November with further weakness until Christmas. Here the prediction departs from the belief that we have seen the last of the bull market; the coeffi-

cient graph rises strongly until March, and although 1988 is not as bullish as 1987 it is not bearish. But 1989 is a different story. One indicator of a financial market event is the ingress or change of an important planet sign. On Saturday October 10 Venus changed from Libra to Scorpio under adverse circumstances, with the moon in opposition to Saturn the next day.

The first degrees of Scorpio are often occupied by planets during major financial events. The Big Bang and 1929 crash are examples. Mercury occupied 12 degrees Scorpio from October 12 to 14, the same as Mars during panic day on Wall Street in 1929 after the sun had made its ingress into Scorpio. Mercury's effect was amplified as it stopped and reversed into this degree from Monday 19 until Wednesday 21.

With Neptune in earth and Saturn in Sagittarius there were several similarities between both crashes. The main difference is that Uranus is also in Sagittarius. Uranus is individual and even perverse, and when we think the bull market is over, it springs a surprise.

When all similarities reach their peak an important catastrophe will make it obvious there cannot be another rally. Gold will rise strongly and the effect on major trading nations will be depressing. The political effects will be far-reaching, with controls on what are now considered to be free markets to suppress speculation. It will actually limit investment.

A strong wind has blown down a branch and reminded us that the whole tree is probably rotten. The gale I see coming in 1989 may destroy it.

David Pallant

CHESS

PROBABLY the most efficient way to improve chess skill is to acquire a knowledge of frequently recurring setpieces. An analogy is made for free kick situations in rugby or soccer, where players take up pre-arranged positions to exploit a statistically limited range of angles and opportunities likely to occur after the kick.

In chess, positions where one player has an isolated queen's pawn or a knight against an immobile bishop blocked by pawns can be learnt as efficiently as set openings. There are optimum attacking piece configurations behind the isolated pawn, and optimum entry squares for the superior knight to penetrate the opposing camp and capture pawns.

Chess setpiece techniques need not be complicated or hard to understand. In a sense everybody, from the humblest novice, uses them. The infamous Scholar's Mate (1 P-K4, P-K4; 2 B-B4, B-B4; 3 Q-B5, N-K3; 4 QxP mate) and knight forks of the enemy king and queen are both elementary setpieces. They are one of a kind with more advanced techniques in that they rely on a generalised error likely to recur in many games.

The setpieces below from the 1983 US Open are based on a concept familiar to experts but not widely known in club and amateur chess. The theme is that it is dangerous to develop the

queen's bishop at K-N6, pinning the opposing king's knight, before the opposing king has castled. At the least, such a bishop will have to be exchanged for a knight, or lose time by a retreat back to its own territory. In practice, the bishop player often tries to maintain his pin and finds his piece harried by an advancing force of pawns and knight.

The premature bishop pin is most risky when the pinner has himself castled; for the counter-attack can easily lead to a decisive checkmate. In the White T. Pallant, Black J. Smeaton, "Four Knights" (US Open 1983) 1 P-K4, N-K3; 2 N-Q5; 3 N-B3, N-B3; 4 B-N5, N-Q5; 5 O-O, B-B4; 6 P-Q3, P-B3; 7 B-B4, P-Q3; 8 N-N3, B-N3; 9 N-B3, B-N3; 10 B-KN3?

White's play (6 P-Q3) has been passive, but he could stay in the game by 10 P-QB3 followed by P-Q4 gaining central ground. Instead the bishop embarks on a disastrous journey.

10 P-B3; 11 B-B4, P-KN4; 12 B-KN4, P-KB4. Black's setpiece takes shape. The threat P-R5 obliges White to weaken his king's defensive pawn barrier.

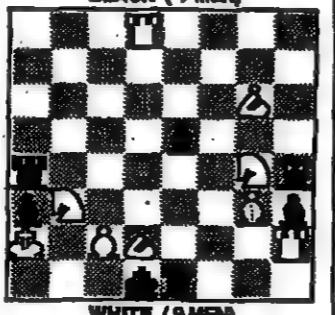
13 P-KB4, N-R3! (forcing the reply, which opens two files for Black's attack) 14 PxP, NxP; 15 B-R1? (he should try 15 P-Q4) P-R5; 16 B-B3, P-R5; 17 P-KN3, N-B3. "Poor bishop!" says the tournament bulletin. The threat is B-KN5 and N-Q6, winning material.

18 P-Q4, B-N6; 19 Q-Q3, PxP.

Now Black plans N-B4, B-B6 ch, B-N7 and N-B6 mate, so White, a pawn down, has to extend. 20 N-N1, Q-N3; 21 N-N1, Q-N3 ch; 22 QxQ, BxQ ch; 23 K-N1, O-O; 24 B-N2, B-R2; 25 Resigns. Black will win another pawn after 25 K-B1, B-K1; while for practical purposes White is a bishop down.

Karpov regained the lead at the world chess championship in Seville with a 36-move win in game five. Kasparov again spent too long on the opening, was left with a minute for seven moves, and missed Karpov's sudden attack which won a rook.

PROBLEM No. 66
BLACK (7 MEN)



WHITE (9 MEN)

White mates in two moves, against any defence (by C. Mansfield, 1930). A little known problem by Britain's best ever composer, with a surprise key and unusual mates.

Solution Page XXXII
Leonard Barden

THE PENSION REVOLUTION

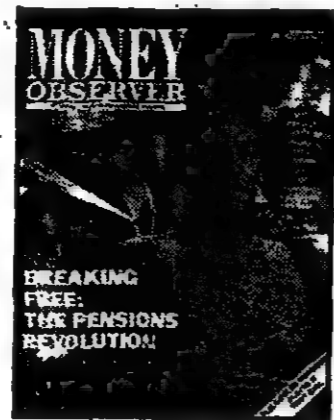
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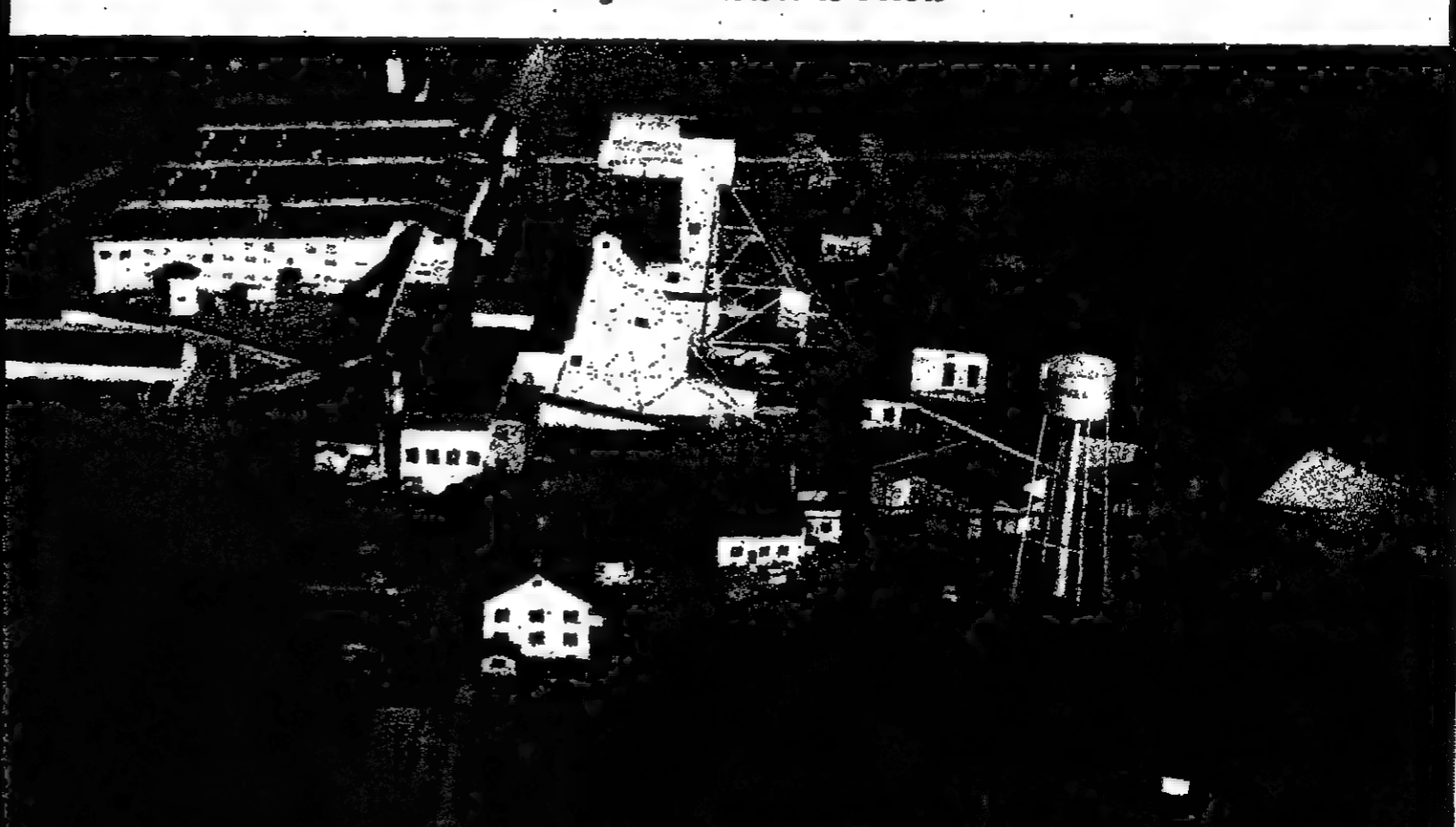
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T13803	100.5	103.8	3.3	.82	.70
	271.6	273.0	1.4	.21	.21
T13840	380	366.5	6.5	.96	.48

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	353.0	379.5	26.5	.26	.26
	425.5	440.0	14.5	.28	.28
T13806	17.8	24.4	6.6	5.78	.72
T13848	40.0	48.0	8.0	.18	.18

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	1558.5	1560.3	1.8	.74	.74
T13785	1394.5	1396.5	2.0	.61	.61
T13788	873.0	874.5	1.5	3.43	1.0
T13812	65.5	93.4	27.9	.89	.63

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Hole No.	From	To	Width (ft.)	Uncut	Cut*
T13780	1828.5	1843.5	15.0	.48	.48
T13798	806.5	811.5	5.0	.879	.879
T13803	586.3	580.4	3.6	2.35	1.0
	872.5	877.5	5.0	.35	.35
T13833	893.8	956.7	62.9	.41	.20

Surface holes drilled within the No. 5 Flange:

Hole No.	From	To	Width (ft.)	Uncut	Cut*
T-86-9	265.8	266.8	1.0	.379	.379
T-86-5	384.0	395.0	1.0	.770	.770
	569.5	571.0	1.5	.535	.535
	693.5	696.0	2.5	.20	.20
	760.5	761.5	1.0	.354	.354
T-86-6	307.5	317.5	10.0	.269	.269
	446.0	448.0	2.0	.418	.418
T-86-9	465.3	471.5	6.2	.309	.309
	947.8	960.8	13.0	.31	.31
	1593.5	1595.6	2.1	.683	.683

* All assays are cut to 1 oz.

For additional information: Tundra Gold Mines Limited (Listed on the Vancouver Stock Exchange, Symbol - TDA V)
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FT 10/87

Junked in the mail

Is it legally permissible to send out a rights issue allotment letter in the same envelope as the announcement to shareholders of the issue, before the meeting authorising it?

This is what one investment company did in September, but my allotment letter was not in the envelope. I do not normally read these lengthy booklets and in this case the front cover told me all I needed to know.

A few weeks later when an allotment letter had arrived, I read the booklet and discovered the company can't do anything about it and that I have had my cash for the sale of rights. I had banked it thinking it was a dividend! These days there's no time to read through things you feel can be taken for granted.

What you describe is legal, although it may not be good practice if the existence of the allotment letter is not conspicuously mentioned in the notice calling the meeting, or in a covering letter.

Director with no say

Until September this year I was a director of a small company. Despite my fiduciary responsibilities I was unable to obtain from the company auditors or accountants or from the company secretary, full financial details of the company's affairs.

I have written to the Registrar of Companies asking for help, as I still wish to know, even retrospectively, what is going on, to be satisfied that my responsibilities as a director have been properly carried out, but I have had no help. Is he responsible, or his there some other person or body to whom I can turn?

The Registrar is not empowered to help you beyond maintaining a register of the company's annual returns and other particulars which you are entitled to inspect for a fee. If you are dissatisfied with the running of the company you should consult a solicitor.

Whose furniture?

My grandparents' furniture (personal chattels) was left in her will by one aunt to another with the wish that the articles which belonged to my parents should be divided by her amongst my nieces and nephews. The bank

acting as executor had the furniture, which included some valuable china and paintings, valued, and experts estimate the value at £2,000. There is reason to suppose that my aunt preferred some of the nephews and nieces over others in the distribution of the chattels. No inventory was prepared for probate or inheritance tax. When asked why it had not prepared an inventory the bank said the change in the will gave my aunt full disposal over the chattels and that an inventory therefore was not necessary. Is this the effect of the above clause and has the bank properly carried out its function as executor in failing to prepare an inventory and valuation of the chattels?

We think that the bank has not acted incorrectly if the aunt to whom the chattels were bequeathed did not require an inventory to be taken (and does not dispute that she has received all the relevant chattels if she were to dispute it the only potential loser would be the bank). The expressed wish for division among the nieces and nephews has no binding effect on the legatees' aunt.

Compelling purchase

A letter from a correspondent in Weekend FT, dated September 26, mentions advantages in purchasing property in conjunction with the Leasehold Reform Act. What are these advantages?

The advantages are that you can insist on a purchase, whether the freeholder wishes to sell or not; and in most cases the price is considerably less than might be obtained in the ordinary open market. By "narrowing" the two interests you get an untrammelled freehold which has an enhanced value if you wish to sell. You have to fulfil the statutory preconditions to invoke the Leasehold Reform Act 1967.



No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All enquiries will be answered by post as soon as possible.

I need my rate rebate

I have a relatively modest income from pensions and investments and live in a highly rated house long occupied by me. Additionally the poundage is among the highest in England.

The consequent total due has previously entitled me to a rate rebate, generally made for a 12-month period.

On the application form I have now received, however, it is noted that in addition to the "Interest from savings certificates" question (previously ignored after advice), there is an additional question regarding details of "the amount of capital or money invested in any way". This is a startling change in regulations in 1988. (Sumner has it that capital in excess of \$5,000 will invalidate any claim for a rate rebate.)

Is this "rumour" true? Does the "amount of capital" question legally have to be answered at this date, or can it be ignored as with the "Interest from savings certificates" question previously? Where can one obtain factual information on what would appear to be a fundamental change which must affect possibly millions of people?

We suggest that you ignore the question as being anticipatory. We cannot say whether the rumour you have heard has any foundation. We suggest that you, and others concerned, write to the Department of the Environment for the further information you require.

BRIDGE

HUGH KELSEY has brought out another book in the Master Bridge Series, Double Squares (Gollancz £9.95). If you study the author's clear explanations, you will recognise these squeeze positions when they arise at the table, and fulfil your contract by operating the squeeze correctly.

We start with a little slam:

North
7 6 4
A K 10 5
A K
9 6 5 2

South
Q 2 5 3
7 6 4
K 10 7

West
A K 10
9 3
Q 10 7 2
A 5 3

East
J 5 3
Q 10 6 2
9 8 4

South deals at game all, and bids one diamond. North replies with one heart, and South bids two no trumps. North makes a try with four no trumps, which is rather ambitious, and South decides to bid six. West leads the club queen, and declarer takes stock. He has 11 top tricks, so to rectify the count for a possible squeeze he lets the queen hold. West switches to a heart, dummy wins with the ace, and cashes the two diamond honours. Declarer tests the clubs by cashing ace and king, but West has four. He then cashes two diamonds to leave a forward ending. West holds Q85 of spades, a heart, and the 10 of clubs, dummy has two spades, K10 of hearts, and 9 of clubs, while East holds J85 of spades and QJ of hearts. South, holding three spades, 9 of hearts, and 10 of diamonds, leads the diamond 10. West throws his heart without pain, dummy lets go a spade, but East feels the pressure and has to discard a spade. Now South plays a heart to the king, and

West must throw a spade, and set up South's 10 for the 12th trick.

We end with a grand slam:

North
A Q 8
J 7 3 4
K 6 2

South
J 10 9 6
K 7 5 4 3
Q 10 6 3
J 9 4

West
A K Q 10 8 3 2
J 4
A K 7

North opens with one (weak) no trump, and South introduces a Gerber four clubs. North asks four spades, showing two aces, and South settles for seven hearts.

Declarer wins with dummy's ace, and seems to have an insuperable loser in diamonds. But provided that West has both 10 and 9 of spades, a double ruffing squeeze is possible. There is a split two card menace in diamonds and the diamond ace and club queen provide the entries needed for the ending.

South runs six trumps, and cashes king and ace of clubs. In the four-card ending West has 108 of spades and 25 of diamonds. Dummy has Q4 of spades, diamond ace and club queen, while East has K7 of spades and Q10 of diamonds. The declarer crosses to the club queen. If either defender throws a spade, he can set up a trick by returning the right spade from dummy if both throw diamonds, the ace of diamonds is cashed, and declarer ruffs a spade, and the knave of diamonds is his 13th trick.

I can recommend this book - but read it slowly.

E.P.C.Cotter

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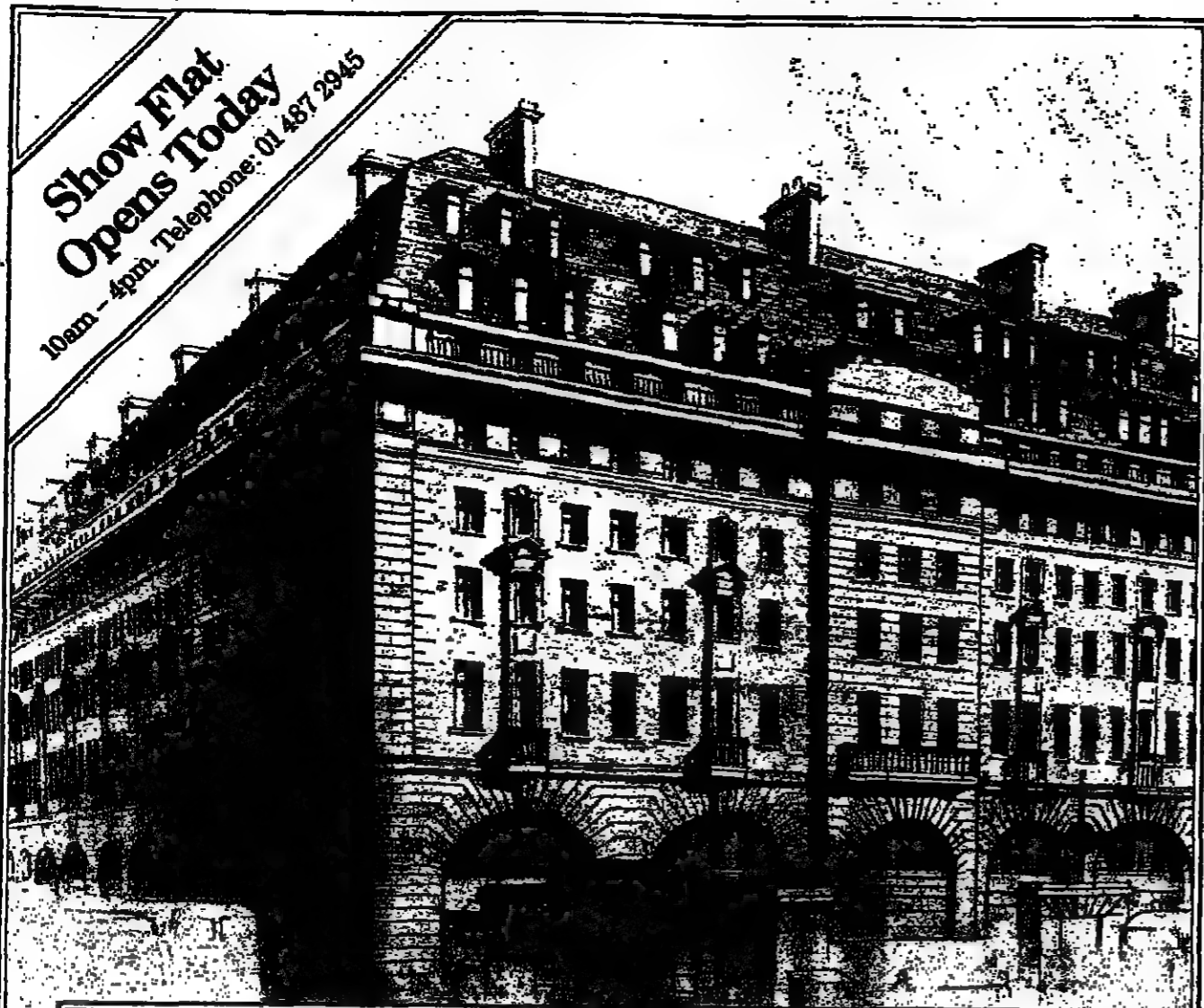
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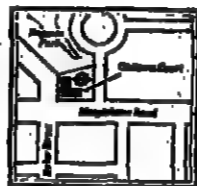
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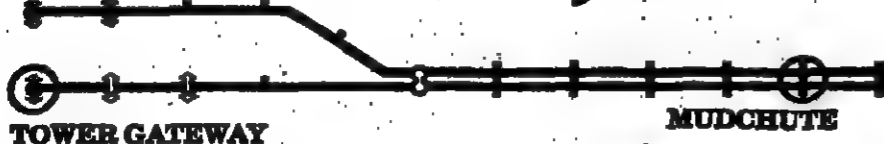
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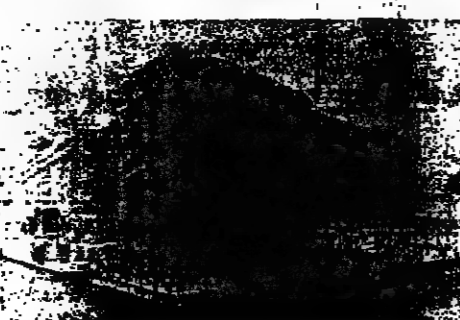
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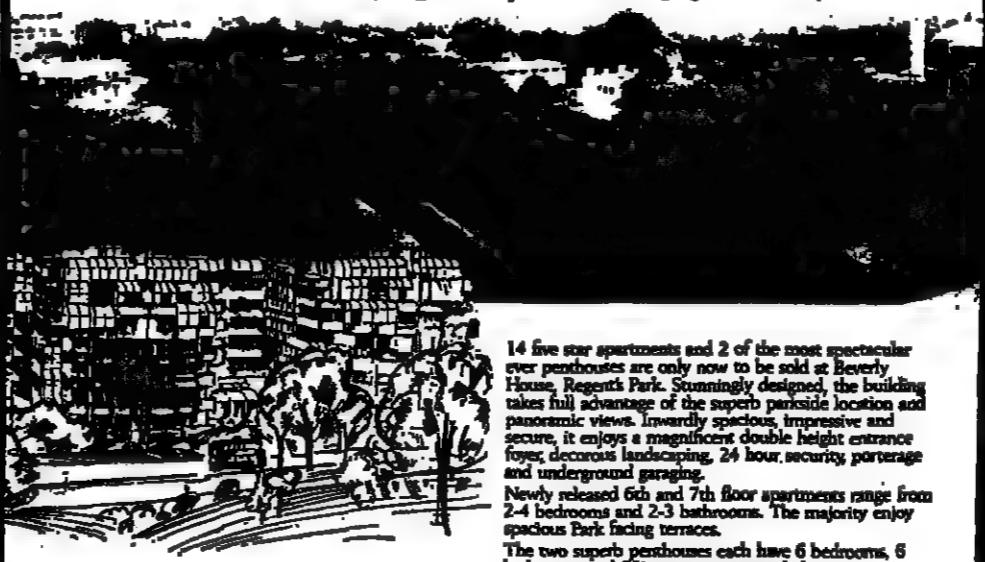
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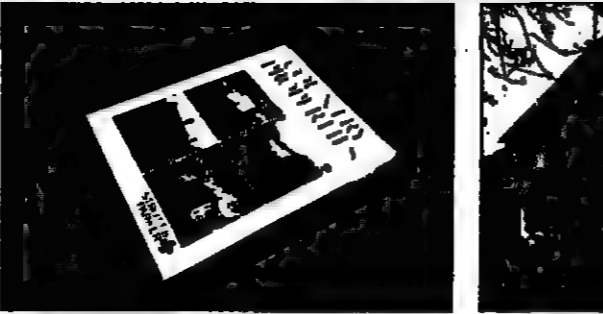
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John Brennan offers some advice on replacing fallen trees

When the wind blew. . . .

ONCE THE chain saws have finished slicing up the trees blown over by the recent hurricane, homeowners across the South East face the job of filling raw gaps in their gardens. If the winds happened to rid you of some 40-year-old monster of a sycamore that has been a plague to your lawn for years and blocked out much of your sunlight, then it may well have been an ill wind. . . .

But most people will be in a replanting mood, and in that case the problem is finding out just how to plant what, where, and, as the Tree Council of Great Britain says, how "to get a proper tree surgeon or qualified tradesman, and avoid the awful lot of cowboys who operate in this area."

The Tree Council recommends that, as a first step, it is usually worth having a word with the local council's tree officer, someone who is likely to be within the planning or parks and recreation department. "Usually" in this case reflects the fact that it depends on individual councils whether it takes its trees seriously or not, and whether they do have someone who knows a Willow from a Redwood and who doesn't view merely trees as roadside obstacles that need hacking about now and again.

Assuming the "tree, or arboricultural officer" is more than a notional title, the Tree Council, which represents 38 different organisations concerned with just about every aspect of trees you can think of, reports that they are likely to be a good source of information about successful local and regional tree types, soil types, and all the other factors that go towards deciding what to plant.

No need to fret about thatch

"PEOPLE still have the strangest ideas about thatched roofs. They think that the insurance costs are going to be horrific, and there's all this business about things in the roof - mice and birds and rats and spiders and things that go bump in the night. . . . it's all nonsense, of course." Paul Stickley of Elliott & Green Nationwide's Lymington Office finds that there are still quite a number of homebuyers who shy off thatched properties despite the fact that insurance costs are only marginally higher than homes with slate roofs and modern thatch netting keeps unwelcome roof dwellers at bay.

There are a lot of people who are worried about thatch, but apart from the fact that people in thatched houses don't have open fires roaring seven foot up their chimneys, and they don't light bonfires against their back walls, there's no real difference. Some people's aversion to thatch leaves little scope for finding bargains.

"I would say that cottage prices have risen by around 55 per cent this year," says Stickley, whose office (0580-77222) has a classic example of a pre-planning restrictions extended cottage on its books in the form of the 275,000 Plumtree Cottage, near Swan in Hampshire. The five-bedroom thatched

house started life as a New Forest cob cottage in the 1760s. But a couple of thousand square feet of additions later, it's a full-size family house set in three quarters of an acre of garden and ideal for anyone without tachophobia and not, as Stickley warns, anyone too tall. "It has all its beams in place, and it might be a problem for anyone over six foot one or so."

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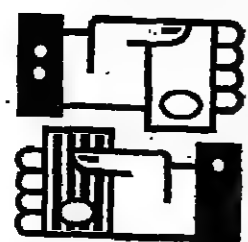
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FINANCIAL TIMES SURVEY



After the stock markets' dive, the unit trust industry faces a setback to expansion, particularly among

small investors, says John Edwards. Important changes lie ahead, too, notably competition from the life companies, regulation in the UK, and new legislation from Europe.

Into the unknown

IT WAS tremendous while the bull market lasted. But how easily can the unit trust industry cope with the problems of the world-wide equity market shake-out?

During the past year records have been chalked almost every month. The value of funds under management in unit trusts has jumped by some £20bn in the last 12 months to total over £50bn. New monthly sales recently have comfortably exceeded £1bn and the number of unit trust accounts has surged to some 4.5m from just over 2m a year ago.

No firm statistics are available, but it is estimated that the number of investors holding unit trust accounts has also risen substantially to over 1.75m. There has meanwhile been a major increase in the number of unit trusts available. Hardly a week has passed without a new fund being launched. The 1,000 mark was breached early in the year and the total has now swelled to nearly 1,500. The number of unit trust management companies has surged as well, to around 150 different groups, so there is plethora of choice for investors.

Until the crash that began on October 19, it had all added up to a glowing picture of success,

bearing in mind that only seven years ago there had been only 400 trusts, with less than £5bn under management.

The easy profits made on privatisation issues prior to BP have meant that more people have been eager to get into the stock market, unit trusts providing a very suitable method for them to do so without having specialised knowledge. The boom has also helped to attract less adventurous investors, who previously had preferred to keep their money in risk-free interest-bearing accounts in building societies and banks.

The constant comparisons by the unit trust groups of the very low return on building society accounts when compared with equity holdings has been beginning to tell. It is difficult to ignore the fact that, during the past five years, the average return from a Japanese unit trust has been 447 per cent, against only 36.8 per cent from a building society. (The unit trust calculation was made before the recent market crash, but the gains have been only slightly eroded). Nevertheless, the picture has changed radically.

Meanwhile, the entry of many powerful newcomers, notably the life assurance companies, has concentrated the campaign

to win new, first-time, investors in unit trusts instead of merely encouraging existing holders to spend more.

Life companies have much bigger resources, and sales forces, to promote their products than have the traditional unit trust groups, and it seems inevitable that by the sheer weight of money they will emerge as the leaders of the industry. Prudential-Holborn, for example, has moved into 10th place in a very short space of time and the firm spent on the Royal Festival - an unheard-of amount to spend on a unit trust campaign - indicates the power of the life offices.

Royal Life may not have achieved its stated objective of attracting £200m, but it did get in a record £240m and over

125,000 investors, of which 60 per cent were going into a unit trust for the first time. Their timing, of course, turns out to have been distinctly unfortunate.

The failure to reach the £200m target was caused by the average investment of £1,700 being much less than anticipated, but it demonstrated that the campaign really did reach the small investor, who represents the biggest potential market. Whether this could prove counter-productive, in view of the immediate dive in the value of the funds, is a problem that the unit trust industry will have to brood over.

Big and medium-sized investors have to a large extent already decided whether or not they want to buy unit trusts. So

it is those groups with the resources to reach the smaller investor, and handle their accounts profitably, who are likely to win the most new business in the years ahead. The traditional, specialist unit trust groups are therefore likely to come under increasing competitive pressure in an industry that is facing some of the most radical changes in its history.

The most immediate challenges will arise from the Financial Services Act, due to be implemented next year with the objective of improving investor protection. By a strange quirk, the new regulations it ushers in will allow unit trust salespeople to "cold call" potential clients for the first time in order to bring selling techniques into line with those for insurance products.

But there will be a 14-day cooling-off period, which could cause considerable problems to unit trust groups selling in this way. The new regulatory structure imposed by the Financial Services Act will also bring a lot of restrictions and extra costs that could make life very difficult.

Already the industry has fallen out with the Securities and Investment Board over its proposals for a new way of pricing unit trusts. The most contentious issue is the plan for forward pricing of unit trusts, aimed partly at preventing misuse of the manager's "box" of surplus units that should be used to smooth out fluctuations in the value of the fund, and partly at protecting existing un-

itholders who can suffer if new units are created at prices out of line with current market conditions. The SIB claims that forward pricing works perfectly adequately in the US, but British unit trust groups say that the American market has a very different structure. Most mutual funds there are sold direct to the public by companies who are able to update prices on a hourly system, whereas in Britain the bulk of unit trusts, some 70 per cent, are retailed by intermediaries, including banks. In any event, they argue, there is as much, if not more, scope for fiddling on forward pricing than on the "box" system which is designed to protect the interests of existing unitholders. They say that buying forward at an unknown price will be anathema to UK investors. But their arguments have been rather dented by the pricing confusion which arose when the equity market suddenly collapsed in mid-October.

While the SIB might be forced to give way on the forward pricing proposal, there is no doubt that the unit trust groups will be subject to a lot more regulation and control than in the past. So far the industry has been controlled mainly by the Department of Trade and Industry directly, and has enjoyed a fairly cosy relationship. But the relationship has been successful too, when you consider that the unit trust industry has avoided some of the scandals that have marred the reputation of other sectors in the City.

But with the Government determined to show that it is serious about providing more protection for investors, there is no way that the unit trust industry can avoid being far more tightly regulated.

In any event, this was inevitable with the hopes of harmonisation of unit trust legislation in the European Community, scheduled to take place at the end of 1988. The so-called Uclis (Undertakings for Collective Investments in Transferable Securities) legislation is supposed to open up the EC market to unit trust groups in all the member countries to compete on level terms, but there is a rider that the local country rules and regulations must be complied with as well. So it may be a long time before there is real competition within the Community, bearing in mind the very different local conditions.

Regulation aside, the short-term future of the industry now depends mainly on whether managers can pick up the pieces after the abrupt end-

ing of the long stock market boom.

Fund managers, most of whom have never operated in a bear market, have always claimed that they would be better equipped nowadays to deal with a collapse as a result of the much greater spread of investments internationally and more sophisticated trading techniques. That looks very unconvincing now, and the unit trust industry may be facing its biggest crisis of confidence since 1974. Seasoned investors know that the bear market rough has to be taken with the bull market smooth, but unit trust managers have lured in many first-time investors on the basis of glossy packaged performance claims. Most such punters will not have paid too much attention to the routine warning that "shares can go down as well as up". The task for unit trust managers will be to prevent too many investors from rushing back into the safe havens of the building societies.

Another possible threat to unit trusts is that, in the forthcoming Budget, the Chancellor of the Exchequer may introduce tax reforms or measures that would promote wider share ownership in a different way. The abolition of capital gains tax would, for example, remove one of the major attractions of investing through unit trusts rather than directly in shares. Mr Lawson is known to be keen to promote direct ownership of shares for political reasons, so that the investor (and potential Tory voter) is much more closely involved in the capitalist economy.

But other new rules proposed by the Department of Trade and Industry could bring new opportunities. The scope of permitted unit trust products will be enlarged to include money market funds and other areas, like commodities and property, previously forbidden for onshore, authorised, trusts. There will be restrictions on how certain of the new products can be sold, and indeed many groups would like some of them to be classified separately so that high risk funds are not sold as unit trusts. But the more products you have to offer, the greater the potential sales.

In view of the damage suffered by their basic equity funds, unit trust groups may welcome the opportunity to diversify into new products. Otherwise, intensifying competition could bite much harder than it has in the recent lull years of the long bull market, which has come to such a spectacular conclusion.



Unit Trusts

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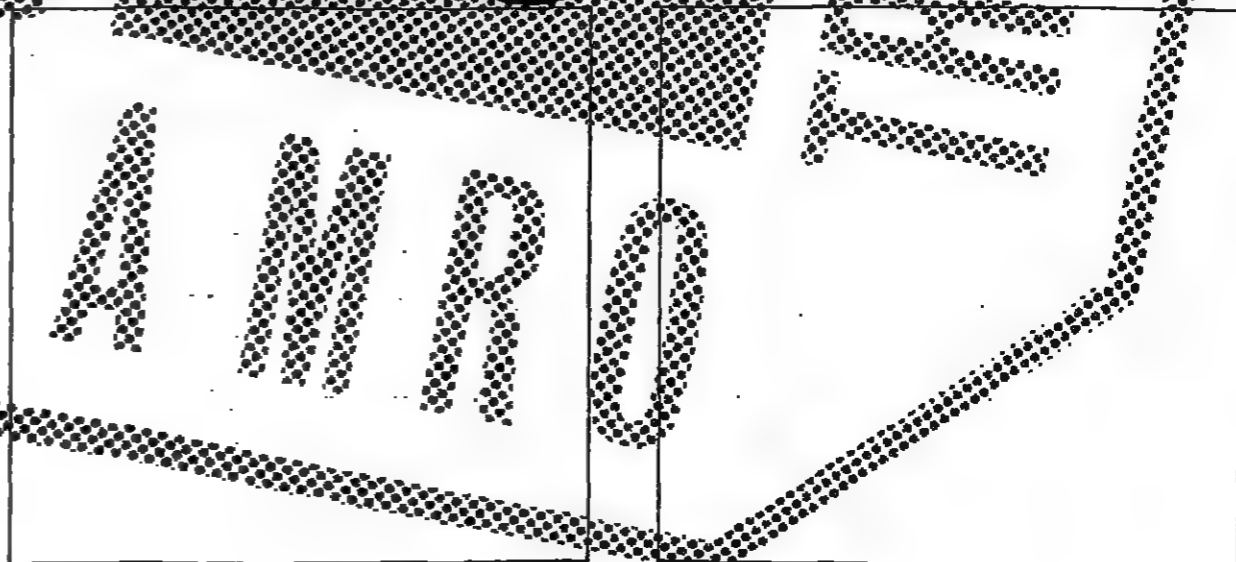
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UNIT TRUSTS 2

The Financial Services Act

Protecting the investor

THE 1986 Financial Services Act, which comes into operation next year, introduces a new regulatory structure not only for the City but for the whole of the UK investment scene.

The underlying reason for it is the protection of the investor. The unit trust industry has operated for decades under the supervision of the Department of Trade and Industry. Unit holders have been well protected. Nevertheless, the industry has been caught up in the changes, possibly in a manner no one foresaw.

The Act establishes a self-regulatory system within a legal framework. The Securities and Investments Board (SIB) is the designated body to operate the Act, with five self-regulating organisations (SROs) covering all markets within the financial sector.

Any investment firm wishing to operate when the Act comes into effect must be authorised either by one of the SROs or directly by the SIB. However, those firms operating within the unit trust industry or connected with it will be involved in one way or another with the SIB and three of the SROs.

First, the SIB is taking over from the Department of Trade and Industry the responsibility for controlling the overall operations of the unit trust industry and the authorisation of individual trusts.

Next, the actual authorisation of the unit trust management firm will be the responsibility of the Investment Managers Regulatory Organisation (Imro) - a rather surprising situation. One could be forgiven for thinking that unit trust authorisation would be handled by another SRO - the Life Assurance and Unit Trust Regulatory Organisation (Lautro). However, this SRO will be responsible for all aspects of the marketing of unit trusts - advertising, direct sales and the theory subject of commission payments to independent intermediaries.

Finally, the authorisation of those independent intermediaries who sell, manage or advise on unit trusts will be given by the Financial Intermediaries, Managers and Brokers Regulatory Organisation (Fimbro).

One could envisage bureaucratic problems dealing with different organisations. Fortunately, Imro and Lautro occupy adjacent offices in the same building - Centre Point, in the

West End of London.

Unit trust groups are to be authorised by Imro because they are essentially investment management bodies, offering their services to the public. Imro is best placed to check the competence and integrity of fund managers, as well as the financial soundness of a firm.

The responsibility of the fund managers within a unit trust group rests with the chief executive, who may or may not be a fund manager himself. Imro will be looking at the whole management of a firm - not just its executives - even though the chief executive accepts responsibility for all employees, including fund managers. Details of all fund managers will have to be given to Imro, which will want all contracts of employment of fund managers to be held centrally.

It is not clear at this stage how Imro will check competence. With investment management, the trust of the public is in the manager. It is obvious that it will be very much more difficult to set up a new unit trust group unless it has the backing of a major financial institution. Any budding entrepreneur must have a fund manager team in place to stand any chance of getting authorisation.

Expert fund managers are in short supply and highly mobile. The loss of two or three key fund managers can turn a group's overall investment performance upside down very quickly. Imro will be taking note of the movement of fund managers and the effect on a group's investment ability.

There is enough material on the marketing of unit trusts and the consequent regulations to fill a book, but the underlying philosophy is that of disclosure: the potential investor must be told everything about the investment product he is interested in.

The SIB tried to match this philosophy in its rule book, with the result that newspaper advertisements - an important marketing outlet for unit trusts - would have filled a broadsheet page, most of it explaining why investors should not buy the product.

Lautro, which is manned by practitioners, rather than civil servants, has produced a more understandable, workable set of regulations which would not stifle this marketing outlet. But marketing is not solely confined to advertisements. The

legislation allows life assurance and unit trust salesmen to sell these products by "cold-calling", the term used for unsolicited calls. No other investment products can be sold this way.

While cold-calling has been an important marketing outlet for life assurance for decades, it is a new venture for unit trusts. However, the Prudential has shown that its direct salesmen can sell successfully sell unit trusts door-to-door.

However, there is a battery of rules, known as a code of conduct, for cold-calling; and, for the first time in unit trust sales, investors have the opportunity to change their minds and get their money back (or most of it, if the market is falling) under the cooling-off procedures.

Another main concern of Lautro is the commission payments to intermediaries and the charges levied from investors. The unit trust groups have always been open on both these aspects.

However, under the legislation, independent intermediaries will have to disclose the actual amount of the commission received - known as "hard disclosure" - unless they are operating within an industry-accepted commission scale, when they simply disclose this feature - "soft disclosure".

Lautro has produced an industry scale, while at the same time harmonising payments between unit trusts and life bonds. The industry was successful in getting life companies to bring their commission payments on bonds down to the existing unit trust levels.

More intermediaries are now selling their clients unit trusts rather than life bonds, and this trend is likely to continue as the financial services legislation begins to bite. Best advice and know-your-customer are two essential elements in the dealings between intermediaries and their clients - and since, in most cases, unit trusts offer better returns than life bonds, because of the tax position, then best advice would require intermediaries to recommend trusts.

How Fimbro will interpret best advice as far as it affects the independent intermediary remains to be seen. To date, Fimbro has been mainly concerned with sorting out the financial aspects of fee levels for intermediaries.

Fimbro has defined four categories of independent intermediaries, related to size and degree

of involvement with clients' money, with the aim of not overcharging the small independent who does not handle clients' money.

Now it needs to get down to guidance on how intermediaries should choose between the life companies and unit trust groups, and between various types of trusts.

As far as unit trusts are concerned, this is likely to involve intermediaries ensuring that their clients understand the nature of the underlying investment risk in each type of trust. Further commentary will have to await publication of the guidelines.

Eric Short

EC harmonisation

Ucits will help remove barriers

THE YEAR 1992 is a fast-approaching deadline, engraved on the hearts of all business-men eager to meet the opportunities and challenges that will be presented by a more open "internal" European market.

It is the date by which the European Commission hopes to have torn down the major barriers that inhibit trade between the member states of the European Community.

For fund management groups, however, the key entry for the diary is probably October 1989, when the so-called Ucits directive - standing for Undertakings for Collective Investment in Transferable Securities - finally comes into effect.

This climactic named piece of legislation will allow financial institutions to operate throughout Europe on the basis of an authorisation in one member state. It was adopted by the EC Council of Ministers in December 1985, but because of the lengthy delay in implementation, it has been put on the back burner initially by most of those who will shortly be able to take advantage of it. The time for dusting down is now over.

Many British unit trust groups are put off continental Europe because its fund management industry is elusive, comparative performance figures rare, and the legal structure of many of

the investment vehicles unfamiliar.

There is little doubt, however, that the European industry is sizeable - more than £200bn on one estimate, compared with the UK's £43bn - and that there are rich pickings for any fund management group that can get the formula right.

In theory, it should be possible for fund managers to do business across national frontiers, given that the Treaty of Rome specifically refers to the free rendering of services throughout the Community. The problem is that barriers have been created by different investor protection rules, which, even if applied without discrimination to home and foreign based institutions alike, effectively prohibit cross-border operations.

As one Commission expert in Brussels explains: "In West Germany an investment company has to have a bank as a depositary, but in many other countries this restriction does not exist. Equally, in Germany a fund can borrow up to 10 per cent of its assets, whereas UK authorised unit trusts are not allowed to borrow anything."

The only way out, therefore, was to harmonise the most important rules and controls on a European basis, so that funds which met these requirements

could be marketed in all member states.

The established groups, happy to be able to offer cash funds, are being dragged rather reluctantly into many other new investment areas, such as property, traded options and futures. EC harmonisation is responsible for much of this development.

In such circumstances, the old style informal system could not be operated by the SIB, required for the whole investment industry. A formal system of monitoring was necessary, if only to ensure the cherished concept of a "level playing field" between unit trusts and other investment industries such as

Rules and regulations

Pricing plan causes disquiet

life assurance.

The UTA accepts this development and welcomes those parts of the SIB's proposed rules that formalise existing practice. In particular, the proposed rules that will ensure that trustees fulfil their responsibilities to unit trusts are welcome.

Trustees will be required to make annual reports to unit holders on the trusts for which they are responsible. They are being told specifically not to create back units. And they are being told formally to take an active interest in the functions of the management groups, and not just wait for managers to report to them. These developments are welcomed by the UTA, which feels that nothing more is necessary for the efficient monitoring of the industry.

The trouble starts with the rest of the rules being put forward by the SIB. It has adopted the attitude that if the means of abuse are present in the present system, then it must put up a set of rules that stop the loophole, even if the abuse can be stopped by other means.

This attitude is highlighted in the proposal to move to a system of "forward pricing", the system operated by mutual funds in the US.

For over 50 years, unit trust deals, both buying and selling, have been done on an historic pricing system. For example, if the manager makes the price of units at the close of business each day, then deals on a certain day are transacted at the previous day's price. The advantage is that the unit holder knows at which price he is dealing.

The SIB argues that historic pricing works very much to the advantage of the manager, who knows how the market has moved since the last prices were quoted and can act accordingly. So it proposes to change to a forward pricing system, under which all deals will be transacted at the price quoted after the order has been received, thus preventing the manager from using his market knowledge. But will it also mean that the unit holder will not know at what price he is buying or selling?

The SIB further argues that this is the situation when an investor buys in the individual shares. The UTA reply that share prices are fixed much more frequently than unit trust prices. It feels that its main competitor is not equity share

buying but unit-linked life contracts and offshore funds, both of which use historic pricing.

If a unit trust price was on a real time system, then this problem would not arise, since forward and historic pricing would both be on the same basis.

However, the rules do not stop there. The SIB wants unit trust managers to quote the basis on which their prices are calculated - bid, offer or intermediate - and for this to be shown in the publication of the prices.

The UTA counter this proposal by arguing that, since there would be a forward pricing system, the information would be at best irrelevant and at worst misleading, as it would be no guarantee that the next price would be on the same basis as the last price.

Finally, the SIB intends to remove any other opportunities for abuse by managers, by requiring them to instruct trustees as to the number of units to create or cancel within a specific time of making the price - two hours is suggested.

This may be feasible if management groups have sophisticated computer based administration systems, but generally it is far too short a time period. It also means that if groups make prices at the end of the day, then newspapers would not be informed of the new prices until after the early editions of the paper have been set - prices shown could be two days old.

The UTA responds that proposals will be going to the SIB on Monday, and it is obvious that they will oppose these particular aspects.

For its part, SIB officials have also made it clear that they have not yet seen any evidence to make them rethink their arguments on forward pricing.

The UTA has been making even greater efforts that usual to get its side of the case presented to the media, and a battle royal looks in prospect on these rules.

But this is not the end of the saga. Unit trust managers have for decades run a box - holding units sold back to them, rather than cancelling them to be sold later. The profits from running a box can be significant in a bull market. Next year the SIB intends to investigate this and other management activities where the manager acts as principal and agent. No doubt another battery of rules will emerge.

Eric Short

“PRACTICAL MEN ARE USUALLY THE SLAVES OF SOME DEFUNCT ECONOMIST”

John Maynard Keynes (1883-1946)

DEFUNCT ECONOMIST?

John Maynard Keynes was, by any standards, an "all-rounder": economist, mathematician, philosopher and distinguished writer. His ideas were so dominant for much of this century that, when leading the British delegation that negotiated the foundation of the International Monetary Fund, he was moved to comment privately that "I am the only non-Keynesian in the room".

But although few would dispute his genius, his economic theories are, at least on the surface, no longer fashionable amongst policy makers.

A defunct economist with no "slaves"?

SLAVISH TENDENCIES?

Keynes' activities as a highly successful private investor are much less well-known than versions of his economic policies. He made fortunes for himself, many of his friends and King's College, Cambridge by his careful, systematic, thorough and thoughtful analysis of fixed interest, equity and commodity markets.

In fact, all his writings and all his activities demonstrated the high quality of successful investment - the flexibility to adapt ideas, insights and professional analysis to emerging market trends.

Some aspects of his most famous economic theories may be inappropriate today - but his fundamental approach to markets is hardly defunct.

PRACTICAL MEN

At Whittingdale, we are not, by any means, "Keynesians", but we do appreciate his serious, careful approach to investment - just as we take into account all past and present ideas that are relevant to investment success.

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We pride ourselves on avoiding slavish tendencies to outdated ideas - while ensuring that our investment approach reflects the best available analysis.

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You should remember that new funds or funds which suffer a change of management are likely to be more of a gamble than those which can point to a long and successful record. M&G's investment team has remained largely unchanged for many years, and our long-term performance record reflects this. Past performance cannot be a guarantee for the future, but it is usually the best measure you have of a fund's likelihood of achieving its objective.

The price of units and the income from them may go down as well as up. This means that unit trusts are a long-term investment and not suitable for money you may need at short notice.

Growth RECOVERY FUND

M&G Recovery Fund is probably the most successful unit trust ever launched and the table below shows just how well it has achieved its aim of capital growth. The Fund buys the shares of companies which have fallen on hard times. Losses must be expected when a company fails to recover but the effect of a turnaround can be dramatic.

Year ended 31 DECEMBER	M&G RECOVERY FUND	F.T. ORDINARY INDEX	RETAIL PRICE INDEX	BUILDING SOCIETY
23 May '89	£5,000	£5,000	£5,000	£5,000
1989	5,880	4,285	5,510	5,858
1970	13,200	5,560	10,641	8,894
1960	81,200	8,641	20,641	30,200
1950	138,400	24,737	27,617	25,471
1 Oct '87	338,160	42,380	29,444	29,577

NOTES: All figures include reinvested income net of basic-rate tax. The Building Society figures are based on an extra-interest account offering 3% above the average yearly rate (Source: Building Societies Association). M&G Recovery Fund figures are all realisation values. * Estimated for the year.

FURTHER INFORMATION: On 16th October 1987 offered prices and estimated gross current yields were:

	Income	Accumulation	Yield
Recovery Fund	825.1p	214.9p	2.40%
Dividend Fund	2096.1p	5.54%	
SECOND General	1195.6p	2418.7p	2.40%

Prices and yields appear daily in the Financial Times. The difference between the "offer" price (at which you buy units) and the "bid" price (at which you sell) is normally 6%. An initial charge of 5% is included in the offer price and an annual charge of up to 1% of each Fund's value - currently 0.4% - plus VAT is deducted from gross income. Income for Accumulation units is reinvested to increase their value and for Income units is distributed net of basic-rate tax on the following dates:

	Recovery	Dividend	SECOND
Distributions	20 Feb	15 Jun	15 Aug
	20 Aug	15 Jul	15 Sep

Applications registered by 15 Dec '87 20 Nov '87 4 Dec '87 for most distributions by 20 Feb '88 15 Jan '88 15 Feb '88

You can buy or sell units on any business day. Contracts for purchase or sale will be due for settlement two to three weeks later. Redemption is possible to accredited agents and is available on request. The Trustees for Dividend and Recovery are Barclay Bank Trust Co. Limited and for SECOND is Lloyds Bank Plc. The Funds are all widespread investments and are authorised by the Secretary of State for Trade and Industry.

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Year ended 31 DECEMBER	M&G DIVIDEND FUND	BUILDING SOCIETY	M&G DIVIDEND FUND	BUILDING SOCIETY
8 May '84	£5,000	£5,000	£5,000	£5,000
1984	5,498	5,498	5,498	5,498
1970	231	400	8,380	5,000
1975	434	511	8,350	5,000
1980	880	575	12,340	5,000
1985	1,139	529	32,590	5,000
1 Oct '87	1,600	417*	69,910	5,000

NOTES: All income figures shown are net of basic-rate tax. The Building Society income figures are 3% above the average of the rates offered in each year (Source: Building Societies Association). M&G Dividend Fund figures are all realisation values. * Estimated for the year.

Balanced SECOND GENERAL

M&G SECOND General Trust Fund aims for consistent growth of both capital and income and has a 31-year performance record which is second to none. It has a wide spread of shares mainly in British companies.

Year ended 31 DECEMBER	M&G SECOND GENERAL	F.T. ORDINARY INDEX	RETAIL PRICE INDEX	BUILDING SOCIETY
5 June '56	£5,000	£5,000	£5,000	£5,000
1960	9,760	10,040	9,648	6,673
1965	15,860	13,115	9,746	6,035
1970	23,240	15,270	8,571	13,575
1975	38,920	18,810	16,553	21,027
1980	91,700	30,200	35,526	35,526
1985	273,400	68,120	42,559	60,417
1 Oct '87	898,480	150,975	48,801	69,924*

NOTES: All figures include reinvested income net of basic-rate tax. The Building Society figures are based on an extra-interest account offering 3% above the average yearly rate (Source: Building Societies Association). M&G SECOND General figures are all realisation values. * Estimated.

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Applications registered by 15 Dec '87 20 Nov '87 4 Dec '87 for most distributions by 20 Feb '88 15 Jan '88 15 Feb '88

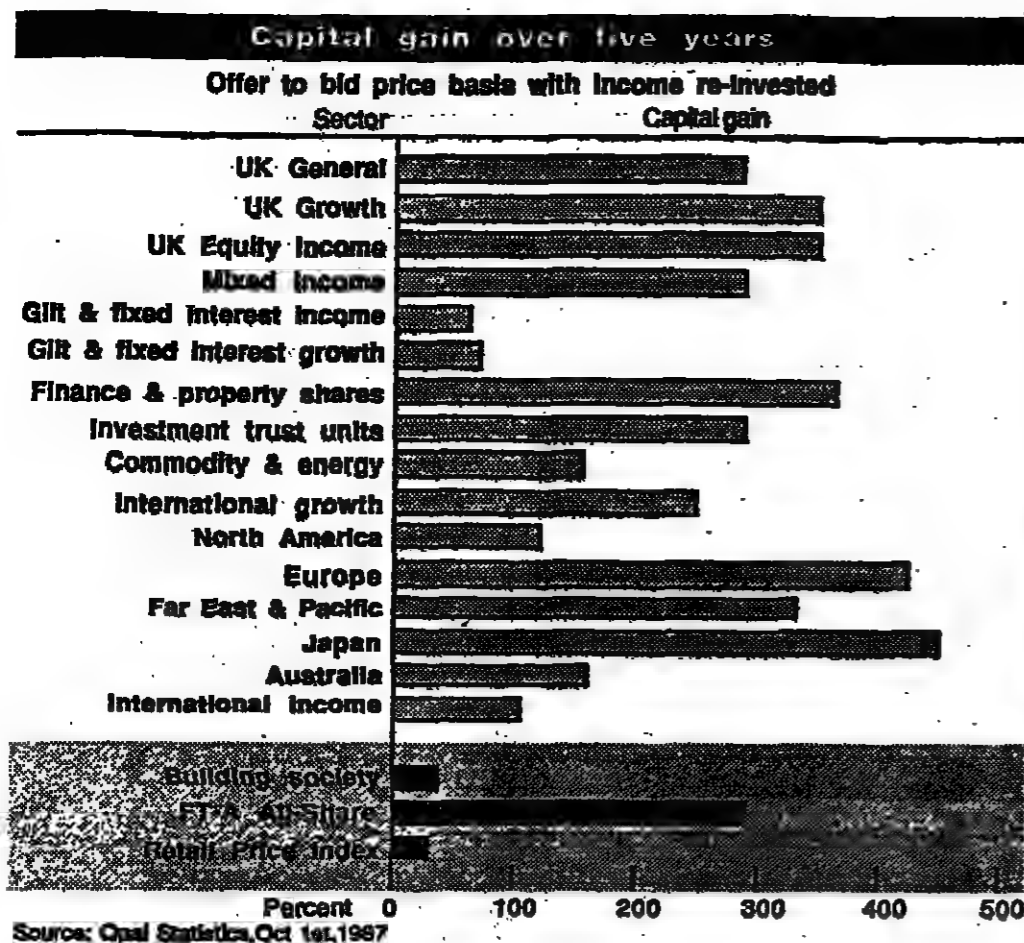
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THE M&G GROUP

UNIT TRUSTS 3



Choosing trusts

Balance lessens risk

FACED WITH persuasive mailshots offering "chance of a lifetime" investment opportunities, how does the investor decide to invest to put his hard-earned cash?

There is now over £47bn under management by unit trust companies, and every month the Unit Trust Association reports record sales of unit trusts.

Although there is no statistical breakdown showing whether the new unitholders are largely private investors or institutional, there can be little doubt that, for the UK's new share-owning democracy, this form of collective investment is proving increasingly appealing.

While unit trusts are less risky than direct equity investment, a well-balanced unit trust portfolio will minimise the risk further and hopefully give a better return.

Mr Ben Gooden, director of the advisory department at M&G, the UK's largest and oldest unit trust company, holds a similar view. "There are basically only three types of unit trust, as far as we are concerned. A growth fund, a balanced fund and an income fund."

Couple this with the advice from Glynnis Clay, senior investment director at independent intermediaries Richards, Longstaff and ask yourself simply: "What do I want from my investment?" and a formula begins to emerge.

The would-be unitholder needs to have a clear idea of his investment objectives. If you want income from your investments, go for income growth trusts; if you want capital, then capital growth trusts. Those who want a mixture of both should go for a balanced fund.

Having decided what you want from your portfolio, the next step is to choose the funds. Mr Jamie Berry, of private client fund managers Berry Asset Management, says: "There is no real scientific basis for choosing a fund. It's more an amalgam of different factors."

Mr Berry looks for consistency in good long-term performance. "Virtually every group has a flash-in-the-pan high performing trust, but I prefer to look for stability in the returns and in the management," he says.

For the private investor, this means seeking long-term performance figures. Look at returns on a fund over at least one year.

Another factor in Mr Berry's decision-making process is identification with the management style and philosophy of the group. He looks for funds with a fairly concentrated stock selection that aren't too aggressively managed. He also takes into consideration the size of the fund and the size of the market it invests in. A large fund invested in Spain will affect local market conditions and be more volatile than a Japanese blue-chip fund.

Information like this requires a little research for the private investor, but investment maga-

"There is no real scientific basis for choosing a fund. It's more an amalgam of different factors."

zines or newspapers carry profiles of leading groups and their funds. Never be afraid to ask the management group.

Private client managers Richards, Longstaff has an analysts department monitoring management groups' performance and the activities of the fund managers themselves. "A good manager makes a good trust, and a good trust can make a good manager," says Glynnis Clay.

If a particularly successful fund manager moves company, a significant part of his fund will often follow him. The ideal balanced portfolio will have a core element of safer long-term investments in blue-chip companies.

Mr Berry puts around 70-80 per cent of his clients' money into funds like this, and the remaining 20-30 per cent into more opportunistic investments. For the private investor this is likely to be the exotically marketed Far East funds or "special situation" funds which have produced excellent returns over the last year.

But always remember: the greater the reward, the higher the risk. For a portfolio of

£20,000, Mr Berry says: "I would spread the money between six to seven unit trust holdings from different groups, so as to spread the risk and harness the portfolio to different fund managers' talent."

Unit trust charges are incorporated in the difference between the bid price, the price that you can sell them at, and the offer price, the price at which you buy the units. The price differences average 5-6 per cent, and market forces keep it fairly consistent from group to group. However, managers retain the right to alter the price to follow market movements.

During August, when the UK stock exchange suffered a series of major downturns, many unit trusts went on to a bid price basis, and investors would have found it more costly and more difficult to sell.

The Securities and Investments Board has recently published new draft regulations for the unit trust industry, outlining a system of pricing where the units are bought on a forward pricing basis to try to make it clearer to the investor what his investment is worth at any one time. The unit trust industry and the SIB are destined to be in acrimonious debate for some time.

In addition to the charges included in the price, the investor will pay a management charge of between 0.75 and 1.75 per cent. This varies, but generally the more specialised the trust, the higher the charge.

The Unit Trust Association publishes a general guide to investing in unit trusts, and while it cannot give specific advice, Sally Buxton from the UTA's information unit says: "Don't put your rainy-day money in unit trusts. They may go down."

However, don't be deterred. Over the last few years many unit trusts have performed spectacularly well. With careful research and regular monitoring, unit trusts offer the private investor relatively safe access to the world's equity markets. The guide to investing in unit trusts is available from the Unit Trust Association, P.O. Box 2, Stroud, Gloucestershire GL6 2AT.

Beverly Chandler
Financial Adviser

Profile: Fidelity

A streamlined latecomer

AS ITS name may suggest, Fidelity has stayed true to its origins. Set up in Boston in 1946 as a fund management company, it has stuck doggedly to the task, ignoring the siren calls of diversification.

Its reward has been position as the world's largest privately owned fund management group, managing assets worldwide of more than \$75bn.

A relative latecomer to the UK market, Fidelity launched its first unit trusts in this country in 1972. Since then it has built up a set of 18 trusts; its latest, the Eastern Opportunities Trust, was launched this month with total funds invested of £1.14bn.

Two features have characterised Fidelity's expansion in the UK market.

First, it has concentrated on developing a streamlined range of large trusts. Its European Trust, for example, has £181m under management, while its Special Situations and Japan Funds have £161m and £177m respectively.

Second, it has used its international network of offices, situated in all the major markets worldwide, to develop a range of specialised geographic funds. Despite eight years of operating a fully fledged London office, and despite the fact that UK trusts are top of the performance tables, Fidelity does not offer a straight UK unit trust.

At the same time, Fidelity believes the key to growth will be making unit trusts easier to buy. Managing director Mr Barry Bateman points out that unit trusts do not have the same kind of accessibility as other vehicles competing for savers' money.

"We are in competition with the building societies, who have offices in every high street and

nice, friendly staff to deal with every question. We can't compete with that, but we can have nice friendly staff to answer the phone at the weekend," he said.

To catch up with building societies, Fidelity launched, at the end of last year, a free telephone advisory service, designed to advise customers on the range of trusts available, and to take telephone orders for buying and selling. The service averages 2,000 calls daily, with a particular concentration at the weekend. During the launch period of its latest Far Eastern Trust, Fidelity took 700 calls in a three-hour period on a Sunday evening, picking up on potential customers who had read advertisements in the weekend papers.

The strong growth in unit trust investment, Mr Bateman believes, has been the result of existing investors' increasing the size and spread of their holding, rather than any great inflow of new investors. But there has to be a limit to the amount that can be taken off the existing customer base.

Future growth will depend on the company's ability to attract a wider spread of customers. But that, Mr Bateman says, demands a different marketing approach.

An upcoming unit trust launch aims to do just that. Specifically aimed at first-time investors, Fidelity will be running a campaign through the Daily Mirror. "We have to market it in a different way," he commented, "because we will be dealing with people who are not used to the whole process of making an investment."

Matthew Lynn
Financial Adviser

Profile: GT Unit Managers

A global player

MALCOLM WEIGHTMAN shifts slightly forward, levels a scrutinising stare, and speaks: "I don't believe our investors are interested in Outer Mongolian left-handed screwdrivers."

That variation on the Mongolian theme suggests that even the Mongolians are getting a little bored of the ordinary old unit trust. GT Unit Managers agrees. The mind of Malcolm Weightman, its managing director, is streaming with ideas for new funds, new ventures and new marketing strategies. And none too soon in the hectic world of selling unit trusts, where obsolescence follows rapidly on the heels of anything so useful as a new fund.

Small investors are taking more aggressive positions, and switching between trusts with daredevil alacrity, emboldened by a new found source of profits in what has been the most bullish of bull markets. But the rush of nerves after the recent collapse in share prices has checked these novel crusades into riskier unit trusts.

Mr Weightman notes the emergence of "short-termism" among even private investors. "People are unbelievably performance-oriented - one held a fund for three and a half weeks and sold because it hadn't performed as well as he'd hoped."

He thinks the average investor's horizon extends for three-four years, where 18 months ago it would have been seven years or more. "Most advisers switch a lot more; they take profits where they can."

Another reason is that people are realising that the cost of investing in a unit trust is close to the cost of buying shares, once stamp duty and share selling fees have been added. "And with a unit trust they get professional management and diversification," said Mr Weightman.

Diversification is a bonus of



Mr Weightman: most advisers switch a lot more

Worldwide Special Situations Fund which was originally a £300m investment trust managed by GT for the US Debuture Corporation.

That was unutilised, parts were sold off, leaving a residue £30m which formed the platform for the release of GT's aggressively managed Worldwide Special Situations.

Like the rest of GT's authorised unit trusts, this is run by GT Unit Managers, the director of which is Malcolm Weightman, a man who has seen the less salubrious side to retail investment management.

Mr Weightman's experience of selling funds goes back to his days as a salesman for IOS, the infamous mutual fund group run by Bertie Boyd, joint managing director. He is now a member of the board.

A retail unit trust man to the full, Mr Weightman is dismayed by the new rules for unit trusts introduced by the Securities & Investments Board.

"If the trustees had been doing their job properly, it never would have happened," he says. "Forward pricing is nonsensical any way you look at it." But a severe bout of chest pain has kept him out of the office.

It supports GT's image as an international investment manager, rather than a home-grown unit trust group, reflected also by the recent launch of the GT

Paul Horn
Financial Adviser

Over the last three years every one of Gartmore's unit trusts has made money for investors, in one case, an impressive 285.7%. While our most recent launch, the Gartmore Frontier Markets Trust, showed an impressive 42% growth in its first seven months. Currently we have over £700,000,000 of private investors' savings invested in our range of twenty-one UK authorised unit trusts.

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And tested ways our money grow

Gartmore is one of the few truly independent investment houses left in the City. With nobody else but our clients to consider we can offer genuinely independent investment management and operate without bias.

Neither are we 'one of the herd'. For instance, a few years ago we created the UK's first 'umbrella' fund - the Capital Strategy Fund. It's been so successful that over \$530 million is invested in it.

Our range of income and capital growth trusts covers every major market and sector in the world. We can offer our unit holders and their professional advisers a wide range of services including a Monthly Income Plan, Portfolio Management Service, Personal Equity Plan, unit trust savings plan, Building Society linked investment plan and a share exchange scheme. We also offer the offshore investor and his professional adviser a comprehensive portfolio of investment products.

To find out more about Gartmore, just telephone the Investor Services Department FREE on 0800 289 336 and we'll send you all the information.

Gartmore

Gartmore Fund Managers Limited, Gartmore House, 16-18 Monument Street, London EC3R 8AJ. Telephone: 01-623 1212.

Harmony with Europe

Continued from previous page

in one member state would be able to operate freely (and without having to set up separate offices) elsewhere.

Units was designed to cover all entities that offer to invest the public's money in a spread of transferable securities and to redeem units, from a common fund, on request.

UK and Irish unit trusts are included, as are the continental varieties of contractual common funds and open-ended investment companies such as the Société d'Investissement à Capital Variable (SICAV) and Fonds Commun de Placement. The original architects of the legislation were keen to reflect the diversity of established legal forms - notably trusts, partnerships and companies - which is why the term Units had to be found.

Closed ended funds and companies such as UK investment trusts are specifically excluded from Units. Member states are also able to leave out venture capital funds, and funds which invest largely in unlisted securities.

The directive covers a wide range of requirements, notably spelling out permitted investments, investment limits and redemption provisions. Thus 90 per cent of a Units portfolio must consist of quoted securities, no more than 5 per cent may normally be invested in a



The EC building in Brussels

single company, while a Units can borrow up to 10 per cent of its assets.

The Directive also requires that the assets of a fund be held by a depository (separate from the manager), who is responsible for ensuring that money due to the fund is properly accounted for and that issue and redemption prices are calculated in accordance with the rules. The qualifications of investment managers (who must be "fit and proper persons") is governed, while there are obligations relating to disclosure and the information provided to shareholders and unitholders.

Officials in Brussels are keen to stress that the Directive lays down only minimum rules, and that member states can impose stricter requirements, but only on their domestic industry.

The only area where the "host" country has competence over Units from another member state is marketing - a touchy subject and one that was considered too complex and time

consuming to be included in the scope of the directive. The result is that, if door-to-door selling is outlawed, as in the UK, foreign funds looking for business must comply with the rules, even if they are used to knocking on doors in their "home" territory.

With two years still to go before the EC Directive has to be reflected in national legislation, it is not surprising perhaps that no member state has yet fully complied with the requirements. Indeed, only Belgium has introduced the relevant changes for its domestic funds; while the Financial Services Act in the UK has noted the fact that funds authorised in other countries of the Community (ie Units) must be allowed to sell their wares in Britain.

Greece and Portugal have until 1992 to amend their laws - but others who fail to meet the October 1989 deadline could face action in the European Court of Justice.

Tim Dickinson

UNIT TRUSTS 4

Pensions

Helping widen the choice

RADICAL CHANGES in UK pension provision, which come into operation next year, offer a potential new market to the unit trust industry. Yet to date, most groups have shown little enthusiasm.

The Government's aim is wider pension choice for individuals, alongside wider home ownership and wider share ownership.

Employees will be able to arrange pensions outside their company scheme and the State Earnings-Related Pension Scheme (Serps), boost company pension benefits through Free Standing Additional Voluntary Contribution (FSAVC) schemes (FSAVCs), and have a wider choice of financial institutions through which to make pension savings up to retirement.

The 1986 Social Security Act ends the monopoly of life companies in the provision of individual pensions. Banks, building societies and unit trusts will also be able to provide the savings element of pensions, though the actual pension itself will still have to be bought from a life company.

So unit trusts can now offer both personal pensions and FSAVCs to employees. FSAVCs are already on the market and personal pensions will come into being next July.

It is estimated that around 10m employees are not in a company pension scheme - a similar number are in. So the potential market for individual pension arrangements is immense. Why then are unit trust groups dragging their feet about moving into this new market?

First, the majority of unit trust groups already have life company subsidiaries or are subsidiaries of life companies.

These groups are still considering which route to take into the new fields.

The life company member of these groups will automatically be providing personal pensions, though there is considerable reluctance at present by established life companies to enter the FSAVC market. So the managers have to decide whether they want their unit trust side also to be in this field, perhaps in direct competition with the life company member.

This is the stance adopted by M & G, which is considering the position. In contrast, Save and Prosper took the decision some time ago to market pensions solely through its life company.

The reason given by Save and Prosper's marketing director was that the administration systems required to operate personal pensions are so complex that it will be difficult enough to get the systems in place for the life company, where there is already a wealth of experience, compared with those required for the unit trust operations which have to start from scratch.

This is the nub of the problem for pension providers. While the Government has introduced wider pensions, the civil servants in the Department of Health and Social Security and the Inland Revenue have been set up such complicated operating procedures that the provider needs in-depth administration systems to operate the schemes.

Unless these systems are already in place, the provider has to be prepared to allocate considerable assets - financial and manpower - to develop a product, demand for which has yet to be proved.

Personal pension contracts

are split into two parts. The first part, known as the protected rights portion, is used to contract out of Serps and has the most complicated administration procedures.

Contributions for this part are collected over the financial year by the DESS, and then paid over to the pension provider in a lump sum a few weeks after the end of the financial year.

The proposed commission rate paid to intermediaries on this part of the policy is 4 per cent of the lump sum, and the average annual contribution is put at £200. However, unit trust groups would be likely to keep to the standard 3 per cent.

There is very little incentive for intermediaries to sell just a rebate-only personal pension contract. They will be looking for a substantial second tier contract from the employee.

Employees can pay up to an extra 17.5 per cent of earnings into this second tier personal pension, with those aged 50 or over able to pay higher contributions.

Workable commissions can be paid on this portion. Life companies would pay the usual high front-end payments to intermediaries, while unit trusts could well stick to 3 per cent of contributions.

All this indicates that no one knows for certain the size of the initial personal pensions market - it could be relatively small.

And intermediaries could well promote life company personal pensions, rather than unit trust contracts, despite the best advice requirements of the financial services legislation. So unit trust groups would be reluctant to allocate men and money developing systems until they are more sure of the market.

The general inclination of unit trust groups is to wait and see what develops. Since the new regime allows employees to sweep up back contributions under the carry-forward provisions, there is no urgency to have a personal pension product on the market on day one. The consensus is that the personal pension market will develop slowly.

Nevertheless, a minority of unit trust groups feel the potential is such that there are advantages in being in this market on day one. N M Rothschild Asset Management has announced that it will have a unit trust personal pension product available that by paying the usual low commission rates will be a winner on charges.

All employees buying personal pensions will receive a cooling-off notice, which allows them to change their minds. This notice shows illustrated transfer values for the first five years of the contract on standard investment assumptions, but the providers' own charging structure. A provider with low expenses will show higher values - a marketing point.

Two of the Scottish independent investment houses - Murray Johnstone, in Glasgow, and Dunedin Fund Managers, in Edinburgh - have expressed their intention also to be in this market, though the other Scottish groups are just watching the situation. Dunedin is prepared to hire the administration necessary.

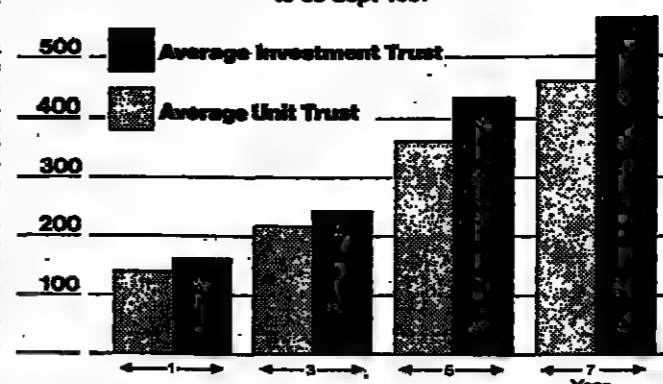
Finally, the wider choice will now allow employees to transfer benefits from one contract to another. No longer will an individual be locked into one contract for existing contributions as is the current scene for self-employed pension contracts.

Eric Short

Performance

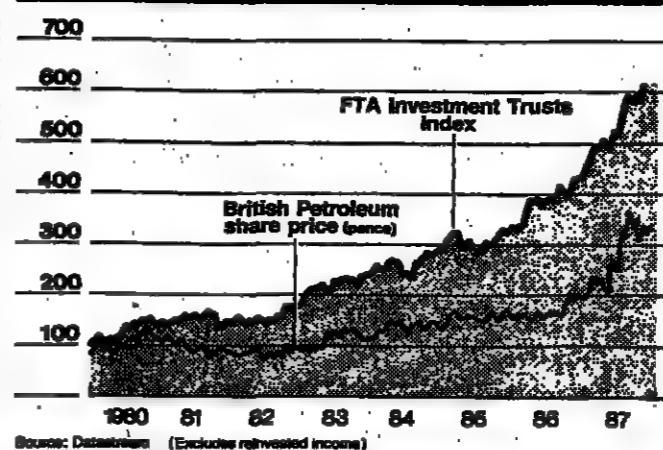
Ways to spread the risk

How the money grew
Value of £100 adjusted for reinvested income to 30 Sept 1987



Source: Money Management & ATC

Investment Trusts relative to BP



Source: Datastream (Excludes reinvested income)

shares in issue. This price may be above or below the quoted price per share.

Since the 1970s, the quoted price of most investment trusts has been at a price lower than the NAV. It's like you are buying shares at a discount," said Mr Gibbs. "But when you come to sell your shares, you have to remember that the discount is still there."

If investment trusts are not as well known as unit trusts, it is for one reason: "Investment trusts pay very little commission to financial advisers," said James Fox, managing director of Morgan Grenfell Trust Managers. "Without the high commissions, the large advertising campaigns are unlikely to be forthcoming. This is an advantage for the investor, however."

Because investment trusts are not as well known as unit trusts, they are not as easy to buy and sell. An investor pays a standard stockbroker commission of 1 to 1.5 per cent, and an annual management fee of about 0.5 per cent or less. Fees for buying, selling and managing investment trusts come to about 3 or 4 per cent, rather than the 12 per cent for unit trusts.

Another advantage of investment trusts is that they are closed-ended funds, said Mr Leslie Ramoisse, a spokesman for The Association of Investment Trust Companies. As a closed-ended fund, it has a fixed amount of investment capital, which can be increased only if the shareholders vote their approval. Shareholders cannot simply apply to the managers to withdraw funds, nor can new investors apply to them to buy existing shares. All buying and selling is done on the Stock Exchange.

This effectively means that fund managers can take a long term view for investments, Mr Ramoisse said.

As open ended funds, unit trusts are "market driven", said

Morgan Grenfell's James Fox. Unit trusts allow investors to quickly when prices are rising, and allow them to jump ship quickly if the investments are falling. Such potential volatility in available investment funds can prevent long term views by unit trust fund managers.

Insurance bonds are a third investment available to the small investor who may not have the time or experience to manage investments in individual companies. A lump sum is invested in an insurance bond, which buys a single premium insurance policy. This gives a small amount of life cover, usually 101 per cent of the initial investment. Most of the money is invested in "units" of one or more investment funds.

These funds are often managed by a major insurance company, although individual brokers create and manage their own funds. Of 140 funds monitored by Finstat, the best managed fund is the City of Edinburgh Risk and Reward Fund, with a 12 month performance of better than 70 per cent. That compares with a growth rate of 163 per cent for the best unit trust fund, Manulife's UK Smaller Companies Fund.

Insurance bonds are similar to unit trusts in fee structure. There is a spread between the bid price and the offer price, usually of about 1 per cent. Second, unit trusts charge a yearly management fee of about 0.75 per cent; and third, the costs of buying, selling and holding the investments are deducted from the funds before the price is worked out.

Insurance bonds offer several advantages. It is usually cheaper to switch between the funds available with one insurance bond than switching between different unit trusts. Higher rate taxpayers, who have used up their tax free allowance for CGT and want an income will not be taxed immediately. This is because you can take as income from a bond a maximum of 5 per cent of the original investment for each year, up to 20 years, and postpone paying any tax.

When the bond is cashed in, there is only the higher rate of tax to pay, and no basic rate tax. However, insurance bonds are not particularly suited to basic rate taxpayers. For basic rate taxpayers, it may be more beneficial to invest in unit trusts, said Debbie Kellas, a marketing officer with Black Horse Investments, a subsidiary of Lloyd's Bank, which sells both unit trusts and insurance bonds.

Clay Owen
Financial Adviser

Profile: the Gartmore/Oppenhheimer merger Britain's biggest

AS THE new chairman and chief executive of Gartmore Investment Management, Paul Myers is currently overseeing the smooth integration of Gartmore with Oppenheimer, the US-based mutual fund group.

The recent merger between British & Commonwealth and Mercantile House, parent companies of Gartmore and Oppenheimer respectively, has formed Britain's biggest fund management group with a total \$18bn under management.

The scale of the merged group, encompassing collective investment schemes of every variety - offshore, unit trusts, money market and mutual funds - demands a truly international approach to sales and marketing. Legislation which seeks to streamline sales of unit trusts in Europe by 1992, and allow offshore funds to be sold in Britain next year, throws into

an international context the UK Government's regulatory regime.

Mr Myers is apparently the man to lead Gartmore through this legal minefield. He has a management finger on every detail, whether it be fine-tuning a joint venture with Clayton R. Bard, Australia's biggest unit trust group, or discussing Gartmore's incentive package with employees of Oppenheimer.

But essentially he is the investment business: a graduate with first class honours from the University of London, Mr Myers was economics correspondent on The Daily Telegraph during the turbulent early 1970s.

He left the Telegraph in 1974 to join the investment division of N M Rothschild, where he was appointed to the board in 1978.

He joined Gartmore in 1985, and the board of B & C in 1986.

Over the past three years he is credited with turning Gartmore from what one observer called "a bucket shop" into an international fund management group, of the quality if not the size of Fidelity.

Bottom-line improvements are reflected by the increase in Gartmore's pension funds under management: at £400m in 1985 they grew to £900m in 1986, £1.6bn this year, and are expected to top £2bn next year.

The merger has created a formidable force in international fund management, the complement of companies which appear made for each other in the geographical and managerial sense. For instance, Gartmore has a strong presence in the Channel Islands with its \$500m fund, while Oppenheimer manages a large range of money

Continued on next page

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MURRAY JOHNSTONE

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Initial success

**B
G
F**

FS The FS Balanced Growth Fund certainly has grown! So much so that £10,000 invested at launch in February 1984 was worth an astonishing £91,700 on 1st October 1987. No, it's not a misprint. (Source: Money Management.)

Invest a little time finding out a lot more about the market's leading fund. (Past performance is not necessarily a guide to future performance.)

BALANCED GROWTH FUND

**S
C
F**

FS The third year of the FS Service Companies Fund is proving to be like the first two.

Very, very successful. In its first two years it was the 2nd UK Growth Fund.

£10,000 invested at launch on 1st April 1985 was worth £41,320 on 1st October 1987. (Source: Money Management.)

Invest a little time finding out a lot more. (Past performance is not necessarily a guide to future performance.)

SERVICE COMPANIES FUND

**I
G
F**

FS The FS Growth Fund continues to provide an increasing income and capital growth.

In fact, since its launch in July 1985 the Fund has never been out of the top 12 Equity Income Sector. (Source: Money Management.)

Invest a little time finding out a lot more.

INCOME GROWTH FUND

**H
Y
F**

FS If you're looking for high income and capital growth you'll be interested to learn that the FS Higher Yield Fund currently yields 5.1% before tax and pays out quarterly income.

And that its accumulation unit offer price has risen 58% in only nine months to 1st June 1987. (Source: Money Management.)

Invest a little time finding out a lot more.

HIGHER YIELD FUND

UNIT TRUSTS 5

Monthly contributions can even out fluctuations in the market, say advocates

Savings plans increasingly find favour

UNIT TRUST investors who put down a lump sum the day before the stockmarkets took a tumble may wish they had heeded the government unit trust health warning: "The price of units can go down as well as up."

But there is one type of unit trust investor who may not have been biting his nails quite so close to the candle. The investor with a monthly savings plan can sit out a fluctuation in the market knowing that when it falls, his monthly contribution buys more units. In the words of Kate Rowley, of Framlington: "The only thing that matters is when you sell, not when you buy."

Regular savings plans have long been regarded as the Cinderella of the unit trust world. Costly to administer by unit trust managers, disliked by financial advisers because of the method of commission payment, most investors have stumbled across the plans almost by accident. But that's all changing.

About half of unit trust companies offer regular savings plans. A typical minimum monthly contribution is £25, though it can be as low as £10, as with Midland bank. Hill Samuel and Oppenheimer ask for £50.

Mr Bill Stuttford, chairman of the Unit Trust Association, and also chairman of Framlington, which is an active promoter of savings plans, is a keen advocate of the system. "Regular saving schemes are an excellent way of investing. The investor benefits from poundcost averaging; they allow into the market people who could not otherwise afford to invest a lump sum; and for tax and charges, unit trusts are better than unit-linked endowment policies."

The concept of poundcost averaging means simply that, if you save a set sum each month, you inevitably buy units across a spread of different prices. When units are high, the investor buys fewer units at low price; when the units are low, the sum buys more. A savings plan effectively reduces the risk of buying in at too high a price by averaging out the cost of units purchased. More sophisticated investors may prefer the risk of buying in when prices look lowest. But for some people at least the risk of choosing when to buy is reduced.

In the main, regular savings plans are tailored to suit the need of income-rich but capital-poor investors, who wish to tap into the greater historical returns available, compared with a building society account, and who wish to avoid the potential pitfalls, such as the early opt-out penalties of unit-linked endowment policies.

Mrs Nichola Brooksbank, marketing manager at N M Schroder, said: "Through bull and bear markets, the performance of unit trusts is brilliant."

The average monthly sum invested with N M Schroder is £258. But lump sum investments form by far the greatest proportion of the group's unit trust sales. Mrs

Brooksbank sees a typical savings plan customer as between 25 and 45, with between £25 and £50 to commit each month. "The market must be for the younger person." And although some unit trust companies continued to sniff at what appeared a marginal market, in the long run, said Mrs Brooksbank, the current savings plan investor was a future lump-sum investor with the same group.

N M Schroder entered the savings plan market in the mid-1980s. There is an administrative cost, but it is no barrier: "For the first year or two you work a loss, but now we make money."

Two new entrants into the savings plan market, Prolific and Mercury, had cut administration costs by introducing a new computer software package. Interestingly, this was sold to them by one of their competitors, Framlington.

At present, N M Schroder obtains about 60 per cent of its lump-sum business through brokers, but less than 5 per cent of savings plan business comes through this route. It is forced to rely on press advertising or direct approaches in the regular savings plan field.

GT is one group that has tried to break broker resistance by offering substantial up-front commission to brokers that place client business with it. Most companies either pay commissions monthly, or six months in arrears. This explains why savings plans are unpopular with many brokers.

Mr Richard East, a director at GT, sees its unit trust savings plans as particularly aimed in competition to the unit-linked life assurance and endowment policies of major life assurance offices. Unit trust companies will claim tax advantages over

insurance-linked policies, and flexibility on endowment plans. But, as Mrs Brooksbank, of N M Schroder, admits, as life assurance offices move in on a market once dominated by specialist unit trust groups, the environment could become quite a lot stickier for unit trust groups, up against the "fantastic client base" of insurance groups.

The small print on a monthly plan varies from company to company. Most insist that you pay by direct debit, which is the most cost effective method for the company, or at least by standing order which is the next best. Save and Prosper is quite rare in accepting payments by cheque.

Some companies offer loyalty bonuses or incentives to put down a large lump sum. Mercury, for instance, offers a 1 per cent bonus for 24 consecutive payments. Framlington gives

the 1 per cent bonus on a one-off payment of over £100. Brown Shipley offers a 3 per cent bonus on every monthly payment, and the minimum is only £20.

Most companies will not give you a switching discount on the front end charge until you have saved a minimum investment, which is usually £250 or £500. Save and Prosper, however, allow you to switch at a 3 per cent discount at any time.

Many companies will encourage you to make your payments regularly, although the worst they can do to a lapsed is to force him to cash in his savings. Some, however, such as Garmore and M & G, allow you to put make payments whenever it is convenient.

Most companies will send you a statement once or twice a year. Garmore also provides savers with a passbook to record savings, which they can

send in to be stamped whenever they like.

If, when you cash in your fund, you incur capital gains tax, you may find yourself doing a complex series of sums to take account of 12 annual payments. Some companies, such as Save and Prosper, have an agreement with the Inland Revenue which allows you to assume that you only put down two lump sums in one year, even though you made monthly payments.

Probably the most tax efficient way of taking out a unit-trust savings scheme is to do it via a Personal Equity Plan (PEP). This allows you to invest a quarter of your whole PEP in unit trusts, or, if you are investing solely in unit trusts, to put in £420 a year (£35 per month). Any capital gains, or income which is distributed back into the PEP, is tax free. To take full advantage of this, you should choose a combined growth and income unit trust. Incidentally, the only way a PEP can be used to invest in foreign markets is via a unit trust.

Hugh Fraser/Michael Kavenagh
Financial Adviser

New entrants

More in hunt for funds

ONE CERTAIN indicator that a market is growing, and that profitable opportunities are opening up, is the length of the queue of new entrants lining up for a slice of the action. By that standard, the market for unit trusts must be growing fast.

As well as a host of existing players, the market putting out more trusts and boosting marketing campaigns for old trusts, such as the massive Royal Life launch that consumed about £10m in advertising expenditure, two major insurance companies have recently joined the hunt for investors' funds.

This month NZL, the giant New Zealand insurer, brushed out into unit trusts with a subsidiary capitalised at £1m; and at the close of last year Commercial Union, one of the giants of general insurance business, stepped into the market with an investment in advertising alone of close on £10m.

Mr Roy Kemp, UK divisional director at Commercial Union, and the man in charge of the unit trust launch, cites two reasons for making the move. "We are big players in the insurance market, and it seemed like an obvious extension of our business. We consider unit trusts to be complementary to our existing business."

At the same time, Mr Kemp points out, it allows the company to escape from the cyclical treadmill of general insurance business, and "give us a smoother profit line".

More specifically, a company such as Commercial Union has a crucial advantage when entering a new market: with a solid reputation already built up, and a core of existing policyholders to work on, it can use its established market position to rapidly carve out a slice of unit trust business.

Continued from previous page

market (currency) funds in Luxembourg.

In the UK, Garmore has £700m in unit trusts with more than 125,000 unit holders, drawn by the group's aggressive approach to the smaller, lucrative but largely untapped markets.

Meanwhile, Oppenheimer boasts a string of Luxembourg-based currency funds, totalling \$50m, which provides Garmore with a much-needed cash retreat and fee revenue of about \$30m a year. In the US, Oppenheimer is among the 30 biggest mutual fund groups with 15m investors and connections with wholesale brokers across the nation.

For Garmore one of the

How unit trusts have grown:

Year	Value of Funds (£m)	Units Sold	Repurchase (£m)	Net Investment (£m)	Assets (£m)	Number of Unit Trusts
1980	201.4	26.88	13.37	13.51	0.68	81
1981	236.6	21.57	14.21	7.36	0.97	84
1982	272.6	45.01	11.07	33.94	0.82	98
1983	371.2	77.48	17.78	59.69	1.05	71
1984	428.9	68.84	22.50	77.04	1.31	108
1985	521.9	60.80	21.78	59.02	1.42	121
1986	581.8	124.69	24.35	100.34	1.64	139
1987	853.6	126.56	42.64	83.91	1.71	161
1988	1,482.4	328.93	70.45	258.48	2.15	176
1989	1,411.8	282.70	76.53	206.17	2.39	205
1990	1,397.7	171.16	73.35	97.80	2.40	240
1991	1,861.2	304.10	127.45	76.65	2.32	289
1992	2,547.5	436.58	241.27	295.31	2.78	326
1993	3,060.4	357.90	171.78	186.15	2.54	336
1994	1,310.8	194.87	110.17	84.70	2.20	360
1995	2,512.4	321.21	130.90	190.31	2.20	363
1996	2,543.0	333.40	165.88	167.52	2.12	392
1997	3,461.3	372.32	257.90	114.42	1.99	368
1998	3,573.4	324.81	254.01	255.70	1.95	421
1999	3,936.7	411.85	353.87	58.98	1.82	459
2000	4,988.0	531.48	423.90	107.58	1.72	493
2001	4,902.4	655.80	426.08	527.57	1.79	528
2002	7,767.8	1,157.51	567.23	590.28	1.80	553
2003	11,699.4	2,458.75	960.19	1,498.56	2.04	630
2004	15,023.1	2,912.2	1,470.7	1,441.5	2.20	667
2005	20,307.6	4,487.7	1,948.1	2,539.6	2.38	826
2006	32,130.8	6,716.7	3,482.1	3,234.6	3.41	994

Statistics as supplied by all UTA member companies and the majority of non-UTA members.

Source: Unit Trust Association.

United market position to rapidly carve out a slice of unit trust business.

The success of that strategy can be readily seen in the sum raised by Commercial Union in the launch period for its first three trusts: a worldwide special dividend trust, a UK and general investment, and an income trust. A total of £220m was raised from 30,000 unit holders, sold through press advertising, intermediaries, and by direct mailing. Commercial Union's policyholders and shareholders.

Since then another fund has been launched, specialising in smaller UK companies, taking funds under management up to £375m; and another three launches are scheduled for this month.

NZL have been similarly tempted by the seemingly easy pickings in the unit trust market for players with an established reputation. Its UK Life sub-

liary, set up from scratch five years ago by managing director Roger Davis and marketing director Freda Surra, this month announced plans for a unit trust subsidiary called UK Unit Trust Managers.

The unit trust operation, capitalised initially at £1m, will share many of its overheads with the life company. The two groups will use the same team of investment managers, and the same 60-strong direct sales force. One launch, a British growth fund, has been scheduled for the end of October, with another, described as highly novel, lined up for later this year.

The strategy at UK Life, Mr Davis said, is to build up a position slowly and carefully. On the decision to move into unit trusts, he comments: "We need to widen our product base in the UK if we are to become a major force in the market,

which we have every intention of doing."

But the decision also fits in with the parent company's declared strategy of building itself into an international financial services conglomerate, with a tailored, initially at least, significant slice of all the major share markets of the overseas world. UK Life has an eye on the shifting nature of the personal investment scene in the UK. As savers turn more towards investment in equities, the unit trust groups sense that they are well placed to pick up business.

At the same time, groups involved in more traditional forms of saving, such as life insurance, are anxious to make sure they are not left floundering yesterday's product while the customers move on elsewhere.

Matthew Lynn

The Garmore merger

uses of the merger is access to Oppenheimer's software system, which was developed in the US to handle an enormous volume of transactions. More British unit trust companies are looking closely at entering the US mutual fund business after Garmore's trail-blazing example.

Myers takes pains to emphasise the mutual benefits accruing from the integration of the staff. "We looked at 30 potential targets before selecting Oppenheimer." Cost, distribution and computer support were not the only criteria. "Good fund

managers are very hard to come by," he said. "Only the rubbish comes easily."

Those in the Oppenheimer camp with a claim to being indispensable include Steven Murray, director of administration, who has been imported from the US to help sort out the new administration system.

And the role of Peter Scott, Garmore's highly regarded international investment manager, assumes a new sphere of influence, with more room to switch between funds and cash.

In other events, Garmore is forging links with trust groups

all over the world. In Tokyo, Garmore co-manages funds with Daiwa, the investment bank; in Australia it is engaged in a joint venture with Clayton Robert, recently acquired by the UK Tyndall Group; in Hong Kong, it runs US\$600m in pension and equity funds; and in Germany it is about to link up with a German fund manager.

The vision, according to Paul Myers, is in the next few years to become "a major provider of global financial services".

Paul Hann



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INVESTMENT MANAGERS

FT 1

Continues.

PERSONAL EQUITY PLAN

The FS PEP Tax shelter was the top plan at the end of June 1987 (Investors Chronicle). Its increase in value was 60% with its nearest rival only at 48%.

At the end of September 1987 initial planholders saw their investment grow by 70%. (Source: FSIM)

Invest a little time finding out a lot more.

AMERICAN GROWTH FUND

The FS investment team continue their 'chart-topping' success.

Just six months after its launch on the 1st April 1987, the FS American Growth Fund was at No. 7 in the chart of best performers in this fast growing market sector. (Source: Money Management)

If you like the sound of that, invest a little time finding out a lot more.

EUROPEAN GROWTH FUND

The FS Fund Management team forecast an exciting future in European stockmarkets.

(It's the same team that has kept other FS Funds regularly in the 'Top Ten' performance tables.)

The fund was launched on 1st September 1987 and already the FS expertise is proving extremely profitable.

Invest a little time finding out a lot more.

Collecting

It's a red letter day

SOTHEBY'S - wittingly or not - are celebrating the 70th anniversary of the Russian Revolution with the sale of a remarkable collection of 2,455 books and pamphlets relating to the history of socialism. (The sale is on November 10, the official anniversary of the October Revolution in November 7.) It is a somewhat uncommon field for book collectors, but a rich one. The pen can be mightier than the sword, and some of these books - more often than not badly printed by clandestine publishers - have influenced human destiny.

The word 'socialism' came into use in the 1820s to describe the varied Utopian reorganisations of society proposed by such men as the Comte de Saint-Simon and Charles Fourier in France and Robert Owen in England. The collection in Sotheby's includes a rare manuscript, *The New Industrial World* of 1830 (estimate £400-£500). A more aggressive oddity - which makes it easy to understand why the English bourgeoisie stood in terror of the early socialists - is a pamphlet by a certain D. Chatterton, entitled *Blood, Bullen & Bognor* or, *An Appeal to the Half-Starved, Herding-Gutted, Poverty-Stricken, Parish-Damned Inhabitants of the Disunited Kingdom*.

England in the 19th Century was a hospitable to political exiles, and Karl Marx spent the last 34 years of his life in London, staying off starvation only through the help of his friend and collaborator, Friedrich Engels, who worked in the Manchester branch of his family's textile firm. *The Communist Manifesto* had been written in Germany in 1848, just before Marx's expulsion, but *Das Kapital* was written in London, in the shelter of the British Museum Reading Room.

Neither of these works, the cornerstones of socialist thought, features in the collection in Sotheby's. Today a com-

plete first edition of *Das Kapital* (the three volumes came out in 1867 and posthumously in 1885 and 1894) would probably realise around £10,000; last year a first edition of the first volume alone realised £3,000. An original edition of *The Manifesto* is worth considerably more: in May, 1986, Sotheby's sold a copy for £24,000 net.

France, with its revolutionary traditions, and Britain, with her advanced industrial society, remained the focus of socialist activity until the 1940s. After the wave of revolutions in 1948 and *The Manifesto*, which laid down the ground rules of modern socialism and communism, the movement spread through Europe and literature proliferated.

In 1865, Marx established the First International, or International Working Men's Association, which held its foundation congress in London. The collection includes the printed reports of several subsequent congresses. The 'Paris Commune' of 1871, when working people assumed political power for the first time in history, gave a further huge boost to socialist activity, even though it lasted briefly and came to a bloody conclusion.

The last quarter of the 19th century saw the establishment of socialist organisations and a consequent renewed surge of literature throughout Europe. In Germany the Social Democrat Party was formed in 1875, and was to provide the model for most other national parties. A Russian socialist party was founded in 1883, but operated either clandestinely or in exile. The collection includes several works by its founder, Georgi Plekhanov, all published in Switzerland - a key centre for Russian, Polish and German political exiles.

The 1890s saw the rise of the greater socialist intellectual - Lenin, Trotsky, and Rosa Luxemburg - and some of the first

and most bitter schisms in the movement. The most famous of these occurred in London at the 1903 congress of the Russian Social Democrat Party, when the party split into the Mensheviks (minority) under Martov, and the Bolsheviks (majority) under Lenin. The ideology of the Bolsheviks was already set out in Lenin's pamphlet, *What is to be Done? Burning Questions of Our Movement*, published in Stuttgart in 1902. Two copies of this crucial work are to be sold by Sotheby's and will probably realise upwards of £500 each.

Thirty other Lenin pamphlets include some of his most aggressive attacks on political opponents, like *The Proletarian Revolution and the Right of Nations to Self-Determination*, the famous pamphlet in which he condemned the compromises of the German Social Democrats and their leading theoretician, Karl Kautsky.

Rosa Luxemburg, the finest mind and most humane figure in early 20th Century socialism, also broke with the Social Democrats, to become a founder of the German Communist Party at the end of the First World War. The war itself had produced the greatest crisis in socialist history, bringing a profound division in every country between those who supported the war on national and patriotic grounds, and those who felt that the great international brotherhood must oppose any conflict between proletariats.

An important pamphlet from this period included in the sale is Luxemburg's *Maternalism, War and the Working Class* - a record of her memorable oratory in the Frankfurt criminal court, when she was charged and condemned in February 1914, for inciting public disobedience; she had urged workers to defy calls to mobilisation. Luxemburg was murdered, along with Karl Liebknecht, in January, 1919, by the 'Freikorps', a paramilitary organisation set up under the new Social Democrat



An item from Sotheby's November 'socialism' sale

Government and prototypes of Hitler's SS. The collection includes a pamphlet by Trotsky and Zinoviev in protest at the murder.

A significant publication from a later date, and an ominous sign of things to come, is the German edition of Josef Stalin's *Lenin and Leninism* (1925). Ironically, the pamphlet is designed in stylish Constructivist typography - the kind of artistic avant-gardism that Stalin was so soon to crush.

The highest estimate in the sale (£1,500 to £2,000) is for a

first edition of Engels' pamphlet, *Scapens, Nicks and die Rieks*, inscribed by the author to the leader of the Belgian socialists, Cesar de Paepa, in 1871. The embattled pioneer socialists would no doubt have found it richly ironic that a century or more later their subversive works, written in passion and cheaply run off by underground presses, should become valued commodities in capitalist societies.

Janet Marsh

Jolliest art fair of the year

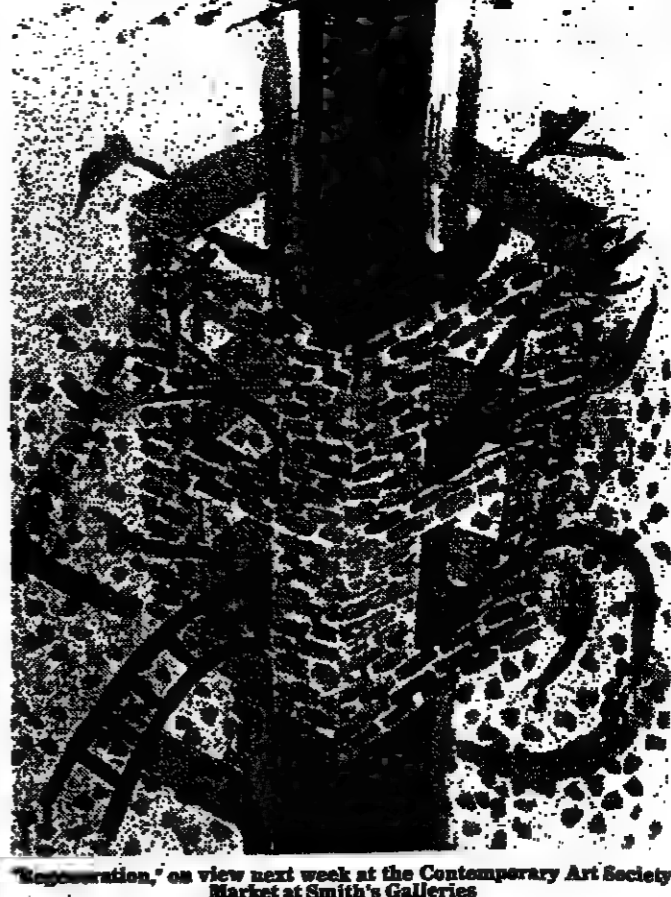
Lucia van der Post previews the Contemporary Art Society's annual beanfeast

CALLING ALL would-be art collectors. If pooh galleries seem hushed and intimidating, hurry along to the jolliest art fair of the year: the Contemporary Art Society's annual art beanfeast is on at Smith's Galleries, 33 Shelton Street, Covent Garden, London WC2 from 4-7 November.

As always there will be an enormous selection of work by artists young and old, new and experienced. It's a marvellous opportunity to start collecting if you're facing blank walls - or to add to your collection, if you've caught the collecting bug already. Prices start as low as about £70 (which is the price you might easily pay for a meal for four in London - with the difference that the pleasure of a painting lasts a great deal longer) and go up to about £700.

A word of warning - go along as soon as you can: old hands know that the best pictures sell fastest. True, new ones will be added throughout the four days of the fair, but the earlier you go, the greater the choice. The Contemporary Art Fair is sponsored by Sainsbury's, and will be open from 11 am - 5 pm each day.

Photographed above is just one of the pictures that will be on sale - a gouache on paper (37 1/2 x 28 1/2 in) by Cally Saunders. It costs £285.



"Regeneration," on view next week at the Contemporary Art Society Market at Smith's Galleries

Brown sparkle

A FABULOUS diamond stud set golden egg worth a cool £1m is the star of the Champagne Diamond Exhibition which opens on Monday at the Goldsmiths' Hall, Foster Lane, London.

The five-inch high egg has been designed by Stuart Devlin, Ben Queen's goldsmith and jeweller, and took his team of top craftsmen months to make. It features 1,500 diamonds on the outside alone, ranging in colour from a deep brown, cognac at the bottom to a pale yellow champagne colour at the top.

Another 1,500 diamonds are revealed as the revolving egg opens into four sections, disclosing a miniature carousel with each tiny horse again decked out in diamonds. As the carousel starts to turn, the horses rise and fall, reflecting colour from tiny lights such as those used in electronics.

Devlin's aim in designing the

pieces for the exhibition - the first of its kind in the world - is to bring to the attention of the public the beauty of champagne coloured diamonds. He is confident that the "browns" will not remain the poor relations of the gem diamonds for long once people see the peculiar warmth inherent in the stones when they are set in yellow gold.

The exhibition is being sponsored by Argyle, the world's biggest diamond mine, which produced 30 per cent of the total world diamond output in its first year of production last year. The mine, based in the remote north of Western Australia, was naturally turned to an Australian - Devlin came to England in 1984 - for advice on how to make the most of its coloured stones.

David Blackwell



A gold and diamond 'Turbine' ring by Stuart Devlin

Peter Fort looks at our attitudes to junk food

Another man's poison

NONE OF US likes junk food, do we? It is only other people who eat junk food and they don't actually enjoy it. As I read the other day, it is worse than chewing gum or biting your nails because the process you ingest meaningless and unwellcome calories. So we've all got it in for junk food.

Is junk food one of those ultra-vague terms of generalised abuse, such as 'fascist' that we use to stigmatised behaviour that we find annoying? I think it is, for me at any rate. Junk food is what people annoy me by eating in the street, underground or public library. Viewed as a nutritional item, the acrid-smelling hot dog with fried onions and ketchup may be a beautifully balanced meal with just the mixture of protein, carbohydrate, fat and fibre that the Royal College of Surgeons would most earnestly recommend. But

the manner of its going makes it junk for me.

There is quite a good case for the argument that it isn't what you eat, it's the way that you eat it. A chocolate with your coffee after dinner seems much more acceptable than sitting down in front of the snooker and working your way through the box. I have always imagined that this is the mythical excuse-mechanism 'for After-Sight' mints. We perceive them to be passed around by beautiful people at glittering dinner parties. We actually scoff them all at

once in our carities and felt flippers in front of the television. I do not think either manifestation makes them truly junk food, but it will to some people no doubt.

Here I am at a cocktail party: there are nuts and crisps. Do I choose someone to talk to on the basis of whether they are standing next to the peanuts (so full of desirable protein, so generous in fibre) or the crisps (all that fat). Is there really a junk/no junk distinction to be drawn here? And if there is why can't I bring myself to make it?

Fast food is by no means necessarily junk food. A good hamburger with, as the Americans say, 'everything on it' is a nice balance of nutrients, wholesome, palatable and money well spent. If only the whole world could eat them, it would be a better place. But the whole world seems to be getting into its own localised fast food 'fashions': 'hamburger', 'other countries' fast food - ie, not American - seems more acceptable.

Certainly falafel and samosas can be good eating. There was a time when samosas were a rare and exotic delicacy that one tremulously asked for in Indian restaurants. Now you find them stacked alongside the fast food newspapers and Mars Bars and cigarettes. If you are in luck and there is a microwave, you eat them steaming hot out of a minute paper bag as you walk down Oxford Street wearing your defiant look that says this is not junk food, it is a vegetable samosa. But your audience knows better: if you are eating it in the street it is junk food. If you ate it in the street it would be junk food.

I have eaten hot chestnuts by the light of acetylene flares in a street market in Palermo on a winter evening. If someone had raised the junk food challenge I would have been affronted. Hot chestnuts have been with us for a long time and junk food is a modern concept, is it not? When my mother was a girl she used to see street vendors selling hot baked potatoes with the slogan 'warm your hands and fill your belly for a halfpenny'.

Was this before or after the invention of that ultimate junk item, candyfloss? I am afraid I don't know how long candyfloss has been with us but it has all the essential junk qualities to tempt the children, ruining their teeth, their appetites and their manners.

Although it has always been most carefully considered by nutritionists, gastronomes and market researchers, I must confess to finding most airline food pretty junky. Always eagerly awaited, it never fails to disappoint. Like all junk food it has been researched - one of existence with acceptability to any one and everyone its only critic.



Food for Thought

Those little rectangular scalloped pieces of grey meat from some unimaginable factory farmed 'Euro-animal' dotted with insipid peas. These compulsory puddings.

But the most dispiriting confrontation with junk food is when on the road you actually want a meal and there isn't anything. It often happens abroad. Too late for lunch, you rush into a bar to be confronted with the choice of crisp, popcorn, nuts, green olives, biscuits in tiny packets and pickled onions - and nothing else. This is when the awfulness of junk food is most apparent. Trying to make a nourishing sandwich out of a packet of cheese biscuits and a sachet of peanuts is an act of desperation. It is better, of course, to go to the greengrocer next door and buy an orange. But one never does.

Cookery

Nanny knows best

THE FRENCH cheesemakers Fromagerie Triballat's big success in Britain to date has been *Roule*, the soft, fresh cow's milk cheese that looks like a Swiss roll.

Now they are hoping to have an equal success with goat's cheeses and are launching a line of cheeses designed to food Britain's tastes - soft in texture and not aggressively goaty.

First, there is *Cabrette*, a rich, creamy cheese with a mild, goaty tang, which gives it an interesting edge. It is a delicious, easygoing cheese, and as versatile as, say, *Petit Suisse*. Try it with wet walnuts and celery, oat cakes or bread. Offer it for dessert with a dab of home-made red currant, quince, or gooseberry jelly spooned over it.

Mash it with finely chopped and fried mushrooms and slip it under the breast skin of a bird to keep the flesh moist during roasting. Use it to stuff the core cavities of halved ripe pears, grind black pepper on top and serve with a few sprigs of watercress for an appetiser, or in lieu of the usual cheese course. Mix it with a handful of chopped, fresh herbs, and use it instead of mayonnaise for hard-boiled eggs and crudités.

If your taste is for lighter and simpler things, you may prefer *Chevreot Frais*. It reminds me of a delicate curd or good cottage

cheese - again, the goat flavour is very mild indeed. The makers describe it as a *fromage frais* made with goat's milk.

Triballat's third offering is *St Chevre*, a small round cheese which the press release describes as designed for slicing and grilling or baking. I had high hopes for it, as I am very partial to a slice of common or garden cheddar laid on French bread, moistened with olive oil, sprinkled with thyme, and cooked until hot and slightly moulted. But it proved a sad disappointment, with a synthetic look and taste and a disagreeable texture. I suppose I should have guessed that a cheese intended for cooking ought to be suspect.

Imports of cheeses from other European countries are also on the increase. I have noticed in particular that Greek and Cypriot ewe's milk *Feta* is much more widely available than it was. *Ricotta* can now be bought more easily outside Soho, and so can genuine *Mozzarella*. In the last few weeks, I have used *Feta* frequently in Greek-style salads, made with lightly steamed beans and courgettes, as well as cucumber and tomatoes, a sprinkling each of thyme, oregano, coriander seed, and sea salt, and a generous drizzle of olive oil.

Another quick and excellent

little lunch dish is *Crostini di Prosciutto*. I used to make this often when I lived in Italy, and was delighted to rediscover it recently when rereading Elizabeth David's *Italian Food*.

Cut some French bread very thinly indeed, and lay a slice of *Mozzarella* on top of each. I allow 2 x 125 g *Mozzarella* fresh cheeses and 16 slices of bread for four people. Arrange the slices of bread and cheese, just overlapping like tiles, in four rows on a plate and bake at 425°F gas mark 7 for about eight minutes.

While the bread and cheese are cooking, make an anchovy sauce. Barely melt two ounces of butter. Add two ounces of canned anchovy fillets and their oil. Warm gently, crushing the fish with the back of a wooden spoon, and continue stirring over low heat until the anchovies have dissolved and the mixture is thoroughly hot. Spoon the sauce over the toasted cheeses as soon as they emerge from the oven and serve immediately. This pungent and very rich dish needs a plain green salad.

For stockists and further details, telephone Joe Gibbons at 0474-332-331.

Philippa Davenport



The Asbach Story

It could easily be argued that Ruedesheim is the gateway to that most beautiful part of the River Rhine with its vineyards and castles.

What is beyond dispute is that it is the home of that most sought after German Brandy - Asbach Uralt. For it was here, around the turn of the century that Hugo Asbach founded his world-famous distillery.

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For further information write to: Asbach & Co. Brandy Distillery, Am Rotund 2-10, D-6220 Ruedesheim-on-the-Rhine, West Germany.

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Barbara Hepworth, *Stripped Figure (aurore)*, copper and string, mounted on wood, 1956, 38 by 56 by 29.8 cm. Estimate: £40-60,000

Post War and Contemporary Art in Britain

Auction: Wednesday 11th November 1987.

The sale marks the achievements of British artists since the war and reflects the current international interest in Post War and Contemporary Art in Britain. Beginning with the 1940s' work of the Neo-Romantic artists and continuing from Ben Nicholson and Henry Moore to Anthony Caro, Craigie Aitchison and the Pop Art movement, with estimates ranging from £1,000 to £100,000, the sale offers exciting opportunities to acquire works by major British artists of modern times.

Enquiries and catalogues: Hugues Joffre and Janet Green 34-35 New Bond Street, London W1A 2AA Telephone: (01) 493 8080 Telex: 24454 SPBLON G.



CLASSIC shoes have been around for decades. Some styles have stepped out of the 19th century, but a good pair of shoes now and they will accompany you comfortably into the 21st. Italian shoes are unquestionably the most stylish. They look, handle them, dirt with them, but beware, they can be fair weather friends - they were not designed to withstand rain.

Unless those Rossetti, Gucci or Ferragamo shoes are made of leather, you can't leave them on the shelf and settle for a pair of more rugged, reliable English shoes. These will be all leather, bench-made, black or brown and of a basic, proven style. They should fit snugly, but not too tight, and wiggle at the toe (leather shoes will give a little on width but never on length).

Keep them properly looked after, washed and brushed, and they should last you years with wax, perched on trees when not out walking and, if feeling a little low, taken to a kindly person with healing powers, to provide some uplifting of the sole. Good shoes also benefit from occasional scrub with saddle soap.

The English bootmaker established his already formidable

reputation during the First World War when he supplied the allied armies (including Italy) with boots. After the war, his skill and experience were channelled into the manufacture of civilian footwear, and he is still acknowledged as the maker of the best.

The 1920s saw the rise in popularity of the low shoe or Oxford - exclusive to the avant-garde dresser for the previous 15 years - at the expense of the high shoe. The latter, however, unconformably remained in the wardrobe of the ascendant of recent military activities.

This was the era of the Prince of Wales who did much to popularise new men's fashions, often by wearing "frock" shoes. The two-tone, Brown buckle and sport-golf shoe shoes - latter popularity known as co-respondents - were particular favourites.

The 1930s slip-on loafers and sling-back shoes were the shoe-joined the booming sector of classics - as did yukka chukka boots and very casual ethnic shoes like espadrilles and huaraches.

After World War II an atmosphere was made by the bloods of London Town to recall an innocent age before the world of wars through their adoption of



the fashion of Edwardian England. Spring slide boots were part of the kit, and these became known as Chelsea boots. Hot on the heels of the be-booted guardsmen in their curlicue bowlers came the Teds - the first in a torrent of youth cults - each with its own distinctive mannerist mode of footwear.

Although in the early 1950s they danced wildly and fastidiously (with square-toed Oxford), the Teddy boys wasted no time in obliterating what little reputation suede shoes had left after years of being associated with cads and homosexuals. Teds donned black or blue suede "brothel creepers" with two-inch thick crepe rubber plinths, in which they bopped,

lived and broke things.

Elsewhere, the mode shoe had been abandoned of its loutish teenage progeny it became prematurely middle-aged, went soft, lost its shape, looked pale; it became a Rush Puppy.

But the pop pansoply roared on. The high-heeled, lace-up boots in the cup of the decade; the 1980s brought the high-heeled, elasticated, centre-seamed heel-boot boot and zippy bike boy boots; and by the late 1980s, the high-heeled, lace-up boots had been damped in the late 1990s, its disgy devotees had tried and tested desert boots, trainers, tassels, chisel toes, side-lacers and were left shoe in either sandals or over boots. Zippy boots had been replaced by the high-heeled, lace-up boots.

All that remained were two last efforts to heap excess upon excess; the chunkiest, chunkiest, most garish, most impractical footwear ever - the WTFos platform shoes and Pank.

Two classes emerged during these frenetic years, the high-flying Gucci loafer of mob fame, and the low-flying Dr. Marten sole of yob fame.

The theatricals loved the Italian loafer, the Gucci loafer, the loafers hated them - had, old-fashioned, rub-your-nose-in-it conspicuous consumption was

all they could see. Actually, Gucis were a supply, light-brown, and were scarce in the 18th century. They have been copied ad infinitum, but never with the aggressive self-confidence and insouciance of the brassy original.

Flies are a pest, and recently unpopularised by 1960s skin-heads, the Air Wair or Hawkins Astronaut boot with the Dr Marten's Air Cushioned sole was adopted because it looked what it was, a boxing glove for the foot. Skin boots have been taken deep into British society - especially in the plain derby shoe form. It is worn in bloodthirsty cherry red; uniform shiny black (at school, bank or police station); country paintwork matt maroon and matt black.

Best selections of Dr Martens solid footwear are at Red or Dead, 22, Rupert St., London W.1; Robot 323, Kings Road, London SW3 and 37, Floral Street, London WC2. Robot also does the famous Red boot.

One final tip: if you like the very best but can't afford it quite yet try put lank at Marx-wells, below Huntmarket at 11 Savile Row, London W1 where the best Red-banded bespokes sell at about £60.

1.Punched seam Oxford, Alan McAfee, Knightsbridge. Choose black for city ubiquity, tan for overthere. £190. For maximum impact, come with arrogance in a pair of 'London Tan' (a particularly raucous amber) suede Oxfords from Fosters, 83 Jermyn Street, London SW1 £190.

2.Black dress shoe by Gieves & Hawkins, 1 Savile Row, London, W1. £265

3.Semi-brogue from Penzance & Skene, at New & Lingwood, 53 Jermyn Street, London SW1 £225.

4.Black or creamy burnt skin

na brogue by Ermenegildo Zegna, 37, New Bond Street, London W1.

3. Bespoke gillie brogue from Lebbie, 8 St James, London SW1. Prices start at about £200 and there's a six month wait for the first pair, but it's worth the wait, trust me.

4. Yellow suede Derby with Doc Martens sole, £31.99 from Eor & Dead, 23 Rupert Street, London W1.

7. Country house shoe (as worn by Prince Charles) by Wildsmith, Piccadilly, London, W1. £180.

Dressing-Jarvis Furze

8. Basic Bass Weirjan, £60. The best shop for American shoes is unequivocally J. Simons of 2 Russell Street, Covent Garden, London WC2.

9. Black suede Gucci loafer, that rare creature, a truly glamorous man's shoe. Very unreserved, very special (what was that about Italian shoes being hard to resist?). Gucci, 27 Old Bond Street, London W1.

10. "Becker" Monk shoe by Church of England. Black or dark brown. £105.

Flain Oxford: The simplest, most obvious shoe in the world: the plain white cotton shirt of the plains. There must be no leather and trimly cut, as any defect is amplified by the severity of the style.

The caps are doffed for play in the most contrasting materials: fustest, mattest white for the most striking shoes or the gleoziest, blackest patent leather after dark dress shoes.

Brogues: The traditional pattern of wing-cap and heel contour on the full brogue was developed to provide double-layer strength at all points of stress in the sole. The pattern of the wingcap is a vestige of the drainage holes in the archaic Irish brog or bog shoe, just as

the gimped (zig-zagged) edges are a stylised reminder of their roughly hewn forebears. A salmon-rosewood excelsior is the life of the land of brogue; join-the-dots thistle designs on the toe-cap; fringed 'tittle' tongues and gillie closures. A semi-brogue is an Oxford with a simple tane (or wiggle) in the toe-cap.

The last of the brogues in town are the Berks. 46-50 Burlington Arcade, London SW1 and Hackett of 1 Broxholme House, New Kings Road, London SW6. Both about £78, Hurry while stocks last. About £150 else-where.

Then: The Edward Green Country House shoe. A paradigm. The shoes capped Oxford of slip-on class - but even more

versatile. Complements, with magisterial understatement, any outfit, no matter what the occasion. Never overstepping the mark.

Tassels lend interest and a modicum of flash to a loafer. The American Bass Weejun (from Norwegian, whence the style originated, among the fishing communities) is a slightly cruder variant. Tasselled, plain strap or "beef-roll," as pictured here.

The monk shoe, the strap-and-buckle monk shoe, dating from the 1880's is based on an ancient ecclesiastic design and the modern pair from warm retains an austerity befitting its monastic progeny.

LANDSCAPES, trees, animals and the topography of the countryside are the favorite subjects for artists for as far back as historians can trace the cover.

The world's oldest art descriptions tell us that the flowers sit on them in cushions, walk on them in rugs, sleep between floral sheets and eat from flowered bowls. They wear flowered and jeweled gowns, carry jeweled cards, mugs, clothes, curtains, soap packets and scent.


Designer, painter, knitter and weaver have all loved flowers. They love them, and they pour from his fingers onto sweaters, rugs and cushions with magnificent profusion. Not content with flowers, they have created flowers and pansies, calliflowers and cabbages are also used by the king of needlepoint designers.

Flowers are famous for their color. When God created na-

the drip trough. People on aeroplanes have a frame wedged between the seat and the aircraft's wool-tucked into leaflet holders. Liberated granules and young tangles are similarly between the seat and the aircraft's wool-tucked into leaflet holders.

Kaffe's new book *Glorious Needlepoint* takes us away from the dreary world of reproduction needlepoint to the world of sunsets and sentimental sayings. He and photographer Steve Levi have marched into the world of sunsets, sunsets and sentimental sayings. He and photographer Steve Levi have marched into the world of sunsets, sunsets and sentimental sayings. He and photographer Steve Levi have marched into the world of sunsets, sunsets and sentimental sayings.

Glorious Needlepoint. Century
Hutchinson \$19.95. *Glorious
Knitting*. Century Hutchinson
\$19.95. *Hardback* \$5.95. *Soft-
back* \$3.95.



I WENT to Banbury Show and Fair in Oxfordshire recently to see some rams at the Chacrolais Breed Sale. It was a splendid affair, well organised, well attended by breeders and buyers and charged with an air of excitement due to the remarkable energy and enthusiasm of the auctioneer.

Not having been to an auction of this sort before I did not quite know what to expect, but what really caught my attention was the absence of dogs.

with a lovely, soft nature. But unknown to the vendor and myself, the little lady was pregnant, and she produced a litter of 11 pups a few weeks later. To lose a dog is sad, but to lose a sheep dog is a tragedy.

I went back to Gyp's previous owners and asked if they could lend me another little bitch; they are gentler and more bid-able). They found me Meg. By the way she squeezed herself under the car foot pedals when picked her up, I knew she was

and her tail curled so far under it looked as if it grew out of her throat. I was advised by several to get shot of her and buy another dog. So after one bad episode, which resulted in sheep being scattered in all directions, I gave her an ultimatum - improve or go. Thirty days was the probation period.

The spring dip was due and the flock was held overnight in a temporary enclosure. Early in the morning it was absolutely empty, and as far as the eye

barley fields, my sheep were greedily grazing. This was to be our Waterloo. With some trepidation, I sent off Meg to collect her sheep.

She was brilliant, and she has never looked back. She prances around all day with her tail stuck up in the air like a ship's mast - a real sheep dog. And, what is more, she made it with five days to spare.

Bobby Robson

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